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Nestor Healthcare Group plc Annual Report and Accounts 2002

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A leading and valued partner in UK health and social care

Nestor
Healthcare
Group plc

The UK's number one provider of personnel and service solutions to the fast-growing health and social care market

Healthcare Personnel Division

Turnover

	2002 £m	2001 £m
BNA	206.0	210.8
Grosvenor Group	81.6	79.3
Others	22.1	18.7
Total	309.7	308.8

British Nursing Association (BNA) is the UK's leading provider of nursing and care professionals to a wide range of health and social care customers.

The Grosvenor Group of companies concentrates on providing specialist nursing and care to the NHS and to Local Authority Social Services. It also provides temporary residential care services for the elderly and those convalescing in their own homes.

Carewatch is the UK's leading franchised domiciliary care provider. It provides a variety of services to people needing care and support in their own homes, either directly to the individual or via Local Authority Social Services Departments.

The Medic Group is a major supplier to the NHS and the private sector of quality locums and professionals allied to medicine. It also recruits healthcare professionals from around the world to help address the shortfall in many healthcare environments.

Healthcare Services Division

Turnover

	2002 £m	2001 £m
Primecare Primary Care	64.6	26.7
NDA	34.2	33.0
Primecare Forensic Medical	13.6	7.8
MAP Contract	47.9	17.6
Others	12.7	7.0
Total	173.0	92.1

Primecare Primary Care is the leading provider of GP and other out-of-hours services to the NHS. The services are delivered via clinical response centres, primary care centres and, where required, by a home visit.

Primecare Managed Healthcare provides complex healthcare-at-home services, offering an alternative to hospital treatment and tailored to meeting the needs of individuals in the community.

Primecare Forensic Medical provides primary care services to Police Authorities and secure establishments including prisons, immigration and detention centres, and young offender institutions within both public and private sectors.

Nestor Disability Analysis provides doctors for domiciliary screenings or temporary support to the Benefits Agency Medical Services of the Department of Work and Pensions.

Financial Highlights

- Results demonstrate significant increases in both turnover and profits
- Strong operating cash flow up 120% to £54.1m (2001: £24.6m)
- Healthcare Personnel Division delivers cost efficiencies following start of programme to reduce transaction costs, improving profits by 14.5% with improved gross margins
- Step-change in Healthcare Services Division, programme being implemented to enhance the quality and extent of services in primary care, the benefits of which will begin to be seen in the second half of 2003
- Earnings-enhancing acquisition programme set to continue in 2003, particularly in homecare

	2002 £m	2001 £m	Change %
Turnover	**482.7**	401.0	20
Operating Profit*	**37.3**	25.5	46
Profit Before Tax*	**33.1**	23.9	38
Earnings per Share*+	**29.8p**	20.5p	45
Earnings per Share – FRS 3 Basic	**2.2p**	11.6p	(81)
Dividend per Share	**9.62p**	8.02p	20

* before goodwill amortisation of £7.7m (2001: £3.8m) and exceptional costs of £18.1m (2001: £4.6m) – FRS 3 operating profit is therefore £11.5m.

\+ before exceptional gain of £0.8m (2002: £nil).

In the Chairman's Statement, the Operating Review and the Financial Review, results are stated before goodwill amortisation and exceptional items. These are discussed in the Financial Review.

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The Health and Social Care Marketplace

Health and social care is the largest single market in Europe. Its current value in the UK stands at approximately £96bn in 2003 and spending in the NHS alone is budgeted to rise from £69.7bn to £105.6bn by 2006/7.

Driving Force: Ageing Population

- The UK population is expected to increase gradually from 58.8m to reach 63.2m by 2026.
- The population will gradually become older with the average age expected to rise from 39.1 years to 42.4 years in 2026.
- The number of people of state pensionable age is projected to increase by 10.5% from 10.8m to 12.0m in 2011, with longer term projections suggesting the number over state pensionable age will peak at over 15m around 2040.
- 2% (1.1m) of the population is now 85 or over and is expected to increase to 3.1m at its peak in 2056.
- For the first time, people 60 and over now form a larger part of the population than children under 16.
- From 2007, the population of state pensionable age is expected to exceed the number of children and by 2026 is expected to exceed it by nearly 2 million.

Growing Market Place

- The UK health and social care market is currently worth £96bn, with £1 in every £14 spent on healthcare.
- The Wanless Report (published in April 2002) identified a £264bn underspend in the last 30 years, with the UK falling behind other countries.
- The Government made a commitment to increase funding in its 2002 budget, with spend on NHS to grow by £40.2bn over the next five years.
- There is a continuing move towards Public Private Partnerships with the public and/or the private sector delivering healthcare, whilst the Government remains the purchaser.

NHS

- Expenditure on the NHS will reach £105.4bn by 2006, with a higher proportion of GDP invested.
- There is a continued commitment to increase the workforce and services, confirmed in the 2002 budget, with an extra 35,000 nurses, 15,000 doctors, 40 hospitals and 500 Primary Care Centres promised by 2008.
- All NHS Trusts are expected to gain Foundation status by 2008, gaining greater freedom to deliver services to patients, being held to account locally by the communities they serve and through 'cash for performance'.
- The NHS continues to work in partnership with the private sector developing Diagnostic and Treatment Centres with 39 fast track surgeries to benefit 120,000 patients a year by 2005.

Social Services

- Current expenditure on personal social services totals £13.6bn with 13% spent on homecare.
- The Government has committed in its 2002 budget to a 6% increase in real term growth for personal social services over the next three years.
- There is a continued increase in the commissioning of homecare by Local Authorities from the independent sector, now reaching 60% of total hours.
- The Care Standards Commission is soon to be regulating the standards of care provided by domiciliary care agencies and Local Authorities, setting common standards for services and for care workers.
- Social Services 'Star' ratings were introduced in May 2002, with managers from the independent sector working with Authorities receiving low ratings.

NHS spending is budgeted to increase from £69.7bn in 2001/2 to £105.6bn by 2006/7.

Primary Care

- The transition from Primary Care Groups to Trusts has been completed, with 315 PCTs delivering services to their local populations across the UK.
- 55% of the NHS budget is currently held by PCTs, which will increase to 75% by 2004, received directly from the Department of Health.
- The Carson Standards of Regulation for out-of-hours providers will be fully implemented by March 2004, with all providers, both public and private, subject to national standards.
- The new GP contract (if accepted) will increase funding from £6.1bn per annum in 2002-3 to £8bn in 2005-6.
- The new contract allows GPs to opt out of providing out-of-hours cover, with responsibility passed to Primary Care Trusts by December 2004.

Intermediate Care

- The NHS Plan contains a commitment to £900m of investment to provide 5,000 extra residential places and 1,700 extra non-residential places by 2004.
- Pressures on acute hospital beds and waiting list targets are both key drivers in this sector.
- NHS and Primary Care Trusts, Health Authorities and the private sector are now working in partnership to develop integrated packages of care to prevent unnecessary hospital admission and ensure timely discharge.

Care Homes

- The total value of this market is estimated at £9.5bn of which the private sector accounts for 66% (£6.3bn).
- Overall capacity has continued to decrease, with an 11% (64,300) reduction in the number of places since 1996, now standing at 511,300 places.
- The consolidation of homes is set to continue, as a result of financial and regulatory pressures on care home operators.

Private Hospitals

- The total value of this market was estimated at £3.5bn in 2001, increasing by 10% from 2000.
- Private acute services are being delivered by 218 independent hospitals with a bed capacity of 9,463, and 82 NHS private patient units with a further 1,367 beds.
- This is a growing market with the continued development of Public Private Partnerships and Private Finance Initiatives.

Private Patients

- Expenditure on privately purchased home care is continuing to increase, reaching £486m in 2001, with the value of informal care estimated to be worth a further £34bn.
- There has also been an increase in the number of people living alone (4.1m people over the age of 50), tighter Social Services eligibility criteria, and increases in Direct Payment schemes.

Institutional Health

- There are 157 prisons and young offender institutions across the UK; some 140,000 prisoners pass through the prison system annually.
- There are a further eight immigration centres with 2,223 places in England.
- In 2001, an estimated £90m was spent on healthcare staffing in England and Wales, increasing by 45% since 1998.

Occupational Health

- Sickness absence is now estimated to cost British industry £10.7bn annually.
- Total spend on occupational health in 2001 reached £260m, increasing by 44% over the previous four years, with 41% (£109m) outsourced to commercial providers.
- The increasing cost of employee absence, increased employee litigation and greater legislation from Europe are all contributing factors to this growing market.

55% of the NHS budget is currently held by PCTs, which will increase to 75% by 2004, received directly from the Department of Health.

Chairman's Statement

2002 has been another year of considerable progress for Nestor, building on our strategy of focusing on UK health and social care, with substantial increases in turnover and operating profits and excellent cash generation.

In 2002, we more than doubled the previous year's cash flow from operations by a combination of higher operating profit and effective working capital management.

In the Healthcare Personnel Division, the programme to reduce transaction costs began to deliver cost-efficiencies, which, together with improved gross margins and the beneficial effect of acquisitions, significantly improved operating profits by 14.5%, despite the impact on activity caused by the roll-out of NHS Professionals. The programme of acquiring small, bolt-on businesses, mainly in the homecare sector, is set to continue in 2003.

It has also been a year of radical development in the Healthcare Services Division, with the start of our programme significantly to enhance the quality of service delivered by our Primecare Primary Care business. The loss of the finite MAP contract led to our focusing resources on the Group's current operating divisions and considerably reducing the central cost-base. We have moved to a more efficient divisionalised structure and achieved annualised cost-savings in excess of £2m.

Summary of Results

- Turnover grew by 20.4% to £482.7m (2001: £401.0m)
- Operating profit increased by 46.3% to £37.3m (2001: £25.5m)
- Pre-tax profit was up by 38.5% to £33.1m (2001: £23.9m)
- Earnings per share were 45.4% higher at 29.8p (2001: £20.5p)
- Operating margins were 7.7% (2001: 6.4%)
- Cashflow from operations was £54.1m, an increase of 120.0% (2001: £24.6m)

Throughout this statement, results are stated before goodwill amortisation and exceptional items. These are discussed in the Financial Review.

Dividends

Your Board is recommending a final dividend per share of 6.14p making total dividends per share for the year of 9.62p (2001 – 8.02p), an increase of 20.0%. For the long-term, we expect to follow a progressive dividend policy but maintain at least two and a half times adjusted earnings cover.

Summary of Performance

Healthcare Personnel Division

The Healthcare Personnel Division comprises British Nursing Association, the UK's number one general nursing and care agency, Grosvenor Group and other businesses focused on providing health and social care personnel on a temporary basis to a UK-wide client base including NHS Trusts, Local Authorities, nursing homes and private patients.

- Turnover was £309.7m (2001: £308.8m)
- Operating Profit increased 14.5% to £22.9m (2001: £20.0m)
- Operating margins were 7.4% (2001: 6.5%)

Acquisitions are a key part of our strategy, and there are many opportunities. In 2002 we completed eleven acquisitions, expected to deliver £2m operating profit in 2003. The programme is continuing in 2003.

These encouraging results benefit from better gross margins from improved pricing and business mix, coupled with cost efficiencies. I am pleased to report that the contract to provide domiciliary care services to the London Borough of Harrow successfully started at the beginning of February 2003 and is expected to contribute some £4.0m of turnover in a full year.

Healthcare Services Division

Healthcare Services delivers innovative solutions to the UK's growing healthcare market through the primary care sector or in government contracts.

- Turnover was up 87.8% to £173.0m (2001: £92.1m)
- Operating profit increased by 161.8% to £14.4m (2001: £5.5m)
- Operating margins were 8.3% (2001: 6.0%)

The division benefited from the impressive (£11.8m) profit contribution after central costs of the MAP contract (2001: £4.0m) where profits were enhanced by lower than expected closure costs. At the same time, we began a major programme of investment in the Primecare Primary Care out-of-hours business to improve the quality of service delivered. This included employing more doctors at higher rates of pay and the opening of our new clinical resource centres, together resulting in a temporary drop in margins to 3.5%, which we expect to improve materially by the end of 2003 as the benefits of the completed programme flow through.

Acquisitions

Acquisitions are a key part of our strategy because the homecare market is fragmented and there are many opportunities. We have continued our programme of buying small businesses, aimed mainly at expanding our existing locally based network in the homecare sector and have successfully begun integrating them into our existing business in the Healthcare Personnel Division. We have demonstrated the returns to be excellent, even assuming a level of attrition normally associated with the integration of such service businesses.

In 2002, we completed eleven such acquisitions, at a total cost of approximately £9m, expected to deliver approximately £2m operating profit in 2003. We are successfully continuing this programme in 2003.

Clinical Governance

In both our Divisions the future depends on building and retaining a reputation for the highest standards of Clinical Governance and effective patient care. Key to the achievement of this aim has been the investment in a comprehensive clinical governance infrastructure. Under the leadership of Dr Bill Holmes, the Group Medical Director, the Group has significantly enhanced its policies and processes for identifying, managing and controlling clinical risk. Processes to mitigate clinical risk are overseen by a separate independent Clinical Advisory Board comprising a number of eminent and independent healthcare practitioners and any issues are reported to the main Board on a regular and structured basis.

Board and Management Structure

In June, we announced the appointment of Stephen Booty as Managing Director, Healthcare Personnel Division. I was delighted to welcome Stephen to the

2002 has been another year of considerable progress for Nestor. There have been substantial increases in turnover and profits with excellent cash generation.

Board and since his appointment, he has proved to be an effective leader of the Division. He has already made a substantial contribution to the Board's strategic plans.

Robbie Burns, Managing Director of Government Contracts left the Group at the end of October. I should like to take this opportunity to thank Robbie for his contribution to the integration of Healthcall.

I am pleased to announce the forthcoming appointment of Martyn Ellis to the Board as Finance Director. Martyn (aged 46) is currently Finance Director of TeleCity plc. The Board welcomes Martyn to the Group. As an integral member of the management team, he will play a key role as we move into the next phase of our development.

David Lyon, who has been Finance Director for the past 5 years and with the Group for 12, will be resigning from the Board in order to pursue further opportunities elsewhere. The Board is appreciative and grateful to David for his considerable contribution within the finance function of Nestor, administering the Group through a period of major growth both organically and by acquisitions. David has played a valuable part in the implementation of our strategy and at the same time has developed our internal controls and system to match the growth in our business.

Staff

We are grateful to our teams throughout the organisation for their caring attitude towards their patients and clients and their loyalty and commitment to the Group. The dedication and concern shown by all of our staff are the critical elements of the Group's culture which lies at the heart of our business and is essential to its future success.

Last year saw changes for a number of people in the Group, both those joining through the acquisition of Healthcall and those who have worked for the Group for some time. All of the changes were aimed at improving the quality of the service we offer but we recognise that change can cause concern for some individuals involved as well as opportunities. On behalf of the Board, I thank them for their fortitude and dedication.

Outlook

Our strategy is to grow turnover and margins in all of our businesses in UK health and social care. This fast-growing and ever-changing market is offering significant opportunities to Nestor as a leading provider of personnel and services.

The largest market, the provision of nurses and carers to NHS hospital trusts, is in a phase of uncertainty because of the creation of NHS Professionals, the government created in-house nursing agency. While the final effect of NHS Professionals, particularly on our large NHS contracts, remains unclear, we believe that the role of the private sector is critical to the NHS meeting its targets and do not expect a significant reduction in commission income to result. The market with the best opportunity for growth is homecare. As well as driving organic growth, we are implementing our programme of tactical acquisitions in this and other areas and will continue to do so in 2003.

The dedication and concern shown by all our staff – critical elements of the Group's culture – lie at the heart of our business and are essential to its future success.

In the Healthcare Services Division, our priority is to build on our Primecare Primary Care business in order to develop the Division into the supplier of choice to Primary Care Trusts of a variety of care services, both in and out of hours. The first step has been our investment in two new clinical response centres. The process of migrating the 29 branches' call handling operations has already begun and we expect it to be complete by the autumn of 2003 when the benefits of the investment we have made will start to come through. A key priority will be the continuing development of constructive partnerships with Primary Care Trusts at the local level.

There are major opportunities for the Group in the longer-term as the Government continues to seek new solutions to achieve its challenging targets for healthcare delivery and recognises that the private sector can provide cost-effective support to the NHS.

The measures we continue to take to improve the quality of our service in the Healthcare Services Division and to achieve efficiencies in the Healthcare Personnel Division will stand us in good stead for improved growth in the longer-term. Whilst our targets for 2003 are challenging, with the first half of the year being impacted by the transitional costs associated with the above measures, we anticipate that organic growth in profits, together with major cost improvements and further tactical acquisitions, will deliver a satisfactory result for the year as a whole.

Antony Beevor, Chairman
3rd March 2003

Major long-term opportunities exist for Nestor as the Government continues to seek new solutions to achieve its healthcare delivery targets and recognises that the private sector can provide cost-effective support to the NHS.

Operating Review

2002 was a year of good growth in turnover, profit and cash during a time of positive change in Nestor's major customer, the NHS – marred by the loss of one major government contract, the Miners' Medical Assessment Programme. Our priorities in 2003 will be to grow our core business and to substantially make up for the loss of this contract, whilst at the same time continuing the investment in the Healthcare Services and Personnel Divisions.

During the year the Group has migrated from a central to an operationally-focused divisional structure to help facilitate the strong growth expected in both divisions in 2003/04 and beyond.

Stephen Booty, Managing Director of the Healthcare Personnel Division, joined the Group in January 2002. In his first year, he has reviewed the Division's branding and transaction cost base and has successfully commenced our programme of small acquisitions in the homecare sector, at the same time as managing the impact on the business of NHS Professionals.

Operating margins in the Healthcare Personnel Division increased by 0.9 percentage points to 7.4% (2001: 6.5%) due to improved gross margins through pricing and, by the end of the year, a significant reduction in transaction costs in BNA. The continued reduction in transaction costs across the division should deliver a further 0.5% improvement in operating margin by the end of 2003.

Stephen Page, Managing Director of the Healthcare Services Division, focused on simplifying the structure of companies in the Division, launching a major rebranding exercise, whilst driving a major change programme in Primecare Primary Care, the UK's leading out-of-hours GP deputising service. Margins have temporarily declined in this business as we have invested in improvements in quality, including the creation of two clinical response centres.

Disappointingly the extension of the Medical Assessment Programme contract was lost, effective 1st November 2002. The competitive tender was lost on price, although service delivery to 31st October 2002 exceeded our expectations and those of our customer, the Department of Trade and Industry. This contract benefited the Group during 2002 by £11.8m of operating profit after central costs and had been expected to generate a further £5.5m contribution to operating profit in 2003 after central costs.

Also during the year, the Group has been at the forefront of developing new methods of healthcare delivery, most notably by developing nurses to perform roles traditionally carried out by doctors. These included undertaking patient consultations, both over the telephone and in our primary care centres; police and prison healthcare and the screening of benefits applicants in the community.

Acquisitions

From May, the Group's Healthcare Personnel Division implemented an acquisition programme that has resulted in the purchase of 11 small businesses, targeted to deliver approximately £2m operating profit in 2003. These acquisitions represent excellent value for the Group, even allowing for 20% attrition to their turnover on integration. Moreover, our discrete acquisition and implementation teams have ensured that these businesses are integrated with our existing operations with minimal disruption. These acquisitions are mainly in the homecare market where there are 3,000 registered domiciliary care providers to the 208 Social Services Authorities.

The Group has migrated from a central to an operationally-focused divisional structure to help facilitate the strong growth expected in both divisions in 2003 and beyond.

Government Regulation and Initiatives

2002 saw significant Government activity in regulation and policy. The NHS in-house agency, NHS Professionals, has continued its expansion at the cost of many of the Group's high volume, low-margin contracts. This has reduced the number of hours of care delivered by 11% but gross profit has improved due to the replacement of the low-margin contracts with "spot" business as the Group seeks to work alongside NHS Professionals to help deliver the NHS's goal of complete coverage of England by 2003.

The Care Standards Commission is now almost ready to regulate the standards of care provided by domiciliary care and nursing agency providers. This raises the barrier to entry by demanding investment in training and systems, which has already caused many of the smaller agency businesses to sell up or close.

The roll-out of the Carson Standards of regulation for out-of-hours providers began in October 2002 for full implementation by the end of 2003. All providers, public and private, as a condition of registration, will be subject to the achievement of the same high standards. Nestor has committed to invest £9.0m capital expenditure and £3.1m in exceptional costs in creating two clinical response centres to help achieve these standards.

The Wanless report, published in March 2002, and the subsequent budget have confirmed the Government's total commitment to increased investment in the NHS and Social Services, creating better services through a higher proportion of GDP invested. The 2002 budget confirmed that total spending on health will reach £105.6bn by 2006. Pay rates are likely to increase for consultants, GPs and nurses as a direct result of more money flowing into the NHS. The Government is now intending to create Diagnostic and Treatment Centres to cut down patient waiting lists. The "pluralism" of provision, where either the public or private sector can deliver healthcare whilst the Government remains the purchaser (and protects the concept of 'free at the point of delivery' for the general public) is a great opportunity for Nestor going forward to 2006 and beyond.

Nestor has been at the forefront of new healthcare delivery methods, most notably by developing nurses to perform roles traditionally undertaken by doctors – from patient consultations to police and prison healthcare.

Our priority in 2003 will be to grow our core businesses whilst at the same time continuing to invest for the future.

The homecare market now accounts for £80.6m of turnover in the Healthcare Personnel Division with 12.7m hours of care delivered in 2002. Homecare is a major area of focus for the Group.

Healthcare Personnel Division

The Healthcare Personnel Division comprises the British Nursing Association, the Grosvenor Group and other businesses focused on providing flexible staffing solutions and managed services to both the healthcare and social care markets.

Healthcare Personnel Division

The Healthcare Personnel Division showed good progress in improving operating profits and margins despite flat turnover. A number of small acquisitions were made in the latter part of the year, expected to contribute approximately £2m to profits in 2003.

A considerable change programme was embarked upon in the year aimed at transforming the division over the next 18 months.

First, the many names and brands in the Division have been rationalised and re-focused to give greater clarity of purpose and to differentiate between the choices they offer to their customers in the marketplace.

Second, a complete re-engineering of our business processes, focused on reducing transaction costs is well under way. Back office functions are being removed from the branches and centralised to support all of the brands. This is designed to return significant cost efficiencies and, in freeing the branches from their administrative burden, will also improve sales efficiency and provide a much greater customer-focused culture. However, the full benefit of these changes will not be seen until 2004.

The markets we serve have also continued to change at a pace. In healthcare, NHS Professionals is continuing its geographic spread and is now actively supporting at least 50 NHS Trusts. Additionally, the roll-out of the national framework agreements, being driven by the NHS Purchasing and Supplies Team, is progressing to plan. Whilst NHS Professionals has led to a loss of some contracted volume and associated turnover, the relative increase in our "spot" business has compensated for this in gross profit. Also, despite these circumstances BNA has renewed or rolled over in excess of £27m worth of NHS contract business. Grosvenor Group has also maintained its current level of contract work.

All the Division's businesses have been successful in gaining selection as approved suppliers in the national framework agreements that have been finalised to date. Of particular note, Medic Group has been successful in winning its place on the National Framework for hospital locum doctors following a three-year absence from the approved list.

The Homecare market is also developing rapidly. The National Care Standards finally become effective in April 2003, bringing with them a raft of new standards, regulations and associated administration for the industry. The trend towards Local Authority outsourcing, whether through "spot" work, block contracts or full outsourcing has continued and it is likely that the extra impetus behind "Fairer Charging" and "Direct Payments" this year will further increase opportunities for the private sector.

Homecare turnover now accounts for £80.6m (2001: £71.6m) of business in the Healthcare Personnel Division and is a major area of focus going forward. In BNA, having now fully integrated the Goldsborough and Primrose acquisitions from 2001, management is focused on organic growth from the existing nationwide network of branches. A good start has been made with the commencement of the Harrow contract at the beginning of February – this is worth £4m turnover in a full year.

Our "bolt-on" acquisition plans are also well under way and the Medico brand, part of the Grosvenor Group, has already been expanded from its original geographic base in the West Country to develop its national presence.

A considerable change programme will transform the Division over the coming 18 months. Clearer branding will give greater clarity of purpose, and centralised administration will make branches more sales and customer focused.

Within the Division each of the operating businesses made good progress in the year.

At British Nursing Association – the largest company in the Group and the UK's leading general nursing and care agency – turnover was slightly down at £206.0m (2001: £210.8m) mainly due to the impact of NHS Professionals on its top line and the transfer of some small homecare businesses to the Grosvenor Group. However, operating margins and profit grew significantly through improved gross margins and cost efficiencies.

Grosvenor Group had another successful year. Turnover was broadly flat at £81.6m (2001: £79.3m), despite the loss of £11.4m of zero margin secondary agency turnover associated with large contracts with some London NHS Trusts, which were transferred to NHS Professionals.

Each of the key brands, Grosvenor – mental health, Mayfair – specialist nurses and Medico – general nursing and homecare, have been successfully expanded from their restricted southern base to offer a national service.

Medic Group – specialising in hospital locum doctors and allied health professionals – had a very successful year. Albeit from a small base, turnover increased by 81.9% to £15.1m (2001: £8.3m), with significantly enhanced margins. Winning its place on the National Framework Agreement for NHS hospital locum doctors should facilitate its continued growth. In the last quarter of 2002 Medic was further strengthened by the acquisition of Cornelle – a business that is focused on GPs and providing doctors for the Prison Service, complementing its existing business portfolio.

Finally, Carewatch – the franchise homecare provider – had another impressive result, increasing turnover by 22.6% to £6.5m (2001: £5.3m) and increasing the volume of hours delivered through its network by over 40% from 92,000 to 130,000 hours per week. We shall continue to grow our network of franchisees and support them in building their businesses, and delivering homecare throughout the UK.

Continued focus on credit control saw a reduction of 15% in outstanding debtor days across the Division.

£22.9m

Operating profit:
Healthcare Personnel Division

Our two high-tech clinical response centres are already providing excellent response times 24 hours a day, 7 days a week.

Healthcare Services Division

The Healthcare Services Division comprises Primecare Primary Care, Primecare Forensic Medical, Nestor Disability Analysis and other businesses that deliver a range of managed healthcare services to the NHS, Government bodies, Local Authorities, private companies and individuals.

Healthcare Services Division

The Healthcare Services Division comprises Primecare Primary Care, the UK's largest provider of out-of-hours services to GPs; Primecare Managed Health, providing specialist healthcare in the home; Primecare Forensic Medical, delivering primary care in secure environments and Nestor Disability Analysis, screening services for the Benefits Agency. Until November, it also included the MAP contract, the coal miners' medical assessment programme for the DTI.

All the businesses in the division provide primary care delivered by doctors, nurses and allied health professionals. It can use its partnerships with Primary Care Trusts and its capability to co-ordinate and deliver local clinical services in all its businesses.

In November 2002, the Group launched a new brand, Primecare, positioning the Group's healthcare services as a partner to the NHS in primary care services.

Primecare Primary Care – the largest provider of out-of-hours services to GPs in the UK – achieved organic turnover growth on a like-for-like basis of 12.2% to £64.6m (2001: £57.6m) with the increase largely deriving from price increases to meet increased doctors' pay.

As highlighted in the Interim Statement, we made the decision in the first half of the year to restructure the business by closing Healthcall's former head office building and consolidating its call-handling function from 29 locations down to two national clinical response centres. I am pleased to report that both new centres were opened on time and on budget in November and the process of rolling-in the remaining 27 control rooms has already begun. At the same time, we have invested heavily in order to meet and exceed new ground-breaking performance standards required by the Government following the Carson Report. This involves an overall capital investment of £9.0m, together with an exceptional charge of £3.1m.

Throughout the year, we implemented our decision to improve the quality of the service delivered, by employing more doctors, at higher rates of pay. This, together with the double running costs of providing the service whilst the roll-in programme is completed, has resulted in a temporary reduction in operating margin to 3.5%. However, once the project is completed by the end of 2003, we expect to see margins and profits materially increase as the benefits of enhanced customer service and cost efficiencies flow through into higher market share and increased revenues.

Our priority is to focus on national clinical response centres whilst strengthening local service.

Our clinical response centres, located in Birmingham and Sheffield, started taking their first patient calls in November 2002 and are already providing excellent response times and productivity to some 16% of Primecare Primary Care's customers. During 2003 the remainder of our control rooms will be migrated to the clinical response centres allowing the local branches to focus on face-to-face patient contact and local partnerships.

By the end of 2003 the centres will be answering calls from across the UK within a maximum time of 30 seconds. Each person calling will create an electronic record that can be used to provide excellent care in this and subsequent contacts and communicate with their GP and other health services. In addition the centres will co-ordinate the appropriate clinical response, whether a clinician advising on the best course of action over the telephone, or a face-to-face consultation which can take place at one of Primecare's 130 local primary care centres or at home. Satellite technology will be employed to manage our fleet of vehicles to ensure urgent home visits are made within 60 minutes and patients advised when the doctor will be with them. The clinical response centres will be resourced by fully trained staff and a network of nurses and doctors operating in the centres, from local branches and from home. The centres will work closely with NHS Direct in handling patient calls for out-of-hours primary care.

Primecare Primary Care's out of hours teams work together with the clinical response centres to provide an excellent platform for the expansion of the Group's services to Primary Care Trusts that are anticipated to hold 75% of the NHS budget by 2004.

For Primecare Forensic Medical – the leading UK provider of healthcare and forensic services to secure establishments and police authorities – 2002 was the first full year of integration of our business providing healthcare services in secure establishments with the business previously operated by Healthcall, providing forensic services to police authorities.

Primecare Forensic Medical grew its turnover by 74.4% to £13.6m (2001: £7.8m), and now provides a wide range of healthcare services to 19 prisons and secure units and to three police authorities.

The Division is an established and leading healthcare provider with significant growth potential, as the public sector increasingly looks to partner private suppliers to deliver the modernisation agenda.

Nestor Disability Analysis (NDA) is the provider of temporary personnel to SchlumbergerSema Group's contract to operate the Benefits Agency Medical Services for the Department of Work and Pensions.

NDA's turnover in 2002 was up 3.6% to £34.2m (2001: £33.0m), reflecting both the increased number of assessments required by the Department and increased doctor pay from the fee per case approach adopted in the year. Following a two-year extension to the contract it now runs until 2005. The process of re-tendering is expected to start in late 2003 or early 2004.

The Medical Assessment Process (MAP) is the largest industrial compensation scheme in the world undertaken under contract to the DTI.

In 2002, the operational performance on the MAP contract was outstanding, with 55,000 claimants screened in the year bringing the total screened since the start of the contract with Healthcall/Nestor in November 1999 to 110,000. In addition quality was significantly improved, with the business managing the process and the clinicians involved to remove all delays and achieve the lowest ever level of returned assessments. ISO 9001/2000 was achieved in May 2002.

The MAP contract delivered cash flow and operating profits well above our expectations, with turnover of £47.9m (2001: £17.6m) and an operating profit contribution of £11.8m (2001: £4.0m) despite the contract finishing at the end of October.

Consequently, it was a disappointment to be unsuccessful in the re-tendering process and the contract was transferred in November 2002.

Primecare Managed Healthcare and Primecare e-health provide complex healthcare-at-home services.

With the success in creating the Primecare brand and the clinical response centres Primecare Managed Healthcare and Primecare e-health have been brought together to enhance the Group's capability to develop innovative approaches to care provision and use technology to improve the patient experience, quality and efficiency of its services.

Primecare Managed Healthcare and Primecare e-health together achieved a 19% rise in turnover over 2001 to £3.2m.

This is a slower rate of growth than previously experienced, particularly in the e-health part of the business, and consequently action has been taken to change the business model and reduce costs considerably.

Both businesses continue to focus on helping the NHS to prevent patients being unnecessarily admitted to hospital and to be safely discharged to independent living. New services continue to be introduced such as intensive and specialist nursing support to nursing and residential homes to increase their capacity to care for people, thus preventing hospital admissions.

The packages of care provided by these businesses are an excellent example of the new services that the Government, NHS and local authorities are increasingly recognising as essential to ensure GP and hospital services work efficiently. They also enable healthcare professionals to safely and more effectively manage a larger caseload, a factor that is increasingly important as the shortage of suitably-qualified clinicians becomes ever more acute.

Healthcall Optical is the leading provider of domiciliary eyecare in the UK.
It provides eyesight tests and spectacles dispensing, primarily to people living in residential and nursing homes. It holds a number of preferred provider contracts with large nursing home groups, ensuring that their residents receive high quality optical screening and eye-care. Its pro-forma turnover in 2002 grew by 5% to £5.3m.

Justin Jewitt, Chief Executive
3rd March 2003

£14.4m

Operating profit:
Healthcare Services Division

Financial Review

Group performance

Turnover

Turnover for the Group increased by 20.4% to £482.7m (2001: £401.0m). Identifiable turnover of the businesses acquired during the year since acquisition amounted to £2.2m. The MAP contract which came to an end on 31st October 2002, contributed £47.9m of turnover to the Healthcare Services Division. Excluding this contract, Group turnover in 2002 was therefore £434.8m.

In the Healthcare Personnel Division, turnover was flat at £309.7m (2001: £308.8m). This was the result of growth of 12.6% in homecare turnover to £80.6m (2001: £71.6m) offset by a fall of 2.0% in NHS turnover to £176.4m (2001: £180.0m) and a fall in other turnover of 7.9% to £52.7m (2001: £57.2m). On a like-for-like basis, turnover was down approximately 5%.

In the Healthcare Services Division, turnover increased by 87.8% to £173.0m (2001: £92.1m) reflecting underlying growth of approximately 10% together with the effects of the acquisition of Healthcall in September 2001. All businesses in this Division grew turnover on a like-for-like basis. Excluding the MAP contract, turnover in 2002 was £125.1m.

Operating profit and margins

The Group's operating profit, before goodwill amortisation and exceptional items, was up 46.3% to £37.3m (2001: £25.5m). Excluding MAP and the Group's e-Health business (formerly Healthwatch, now rolled into other businesses), operating profit in 2002 was £27.3m (2001: £23.1m) up 18.2%.

The Group's operating profit margin before goodwill amortisation and exceptional items increased to 7.7% (2001: 6.4%), 6.3% excluding MAP and e-Health.

Operating profit (before goodwill amortisation and exceptional items) from the Healthcare Personnel Division was up 14.5% to £22.9m (2001: £20.0m). This included a full-year contribution from businesses acquired in 2001 and the part-year benefit of acquisitions made in 2002. On a like-for-like basis operating profit growth was approximately 5%.

The operating margin of the Healthcare Personnel Division increased to 7.4% (2001: 6.5%) reflecting improved gross margins resulting from increased "spot business" and back-office efficiencies.

Operating profit (before goodwill amortisation and exceptional items) from the Healthcare Services Division was up to £14.4m (2001: £5.5m). The net loss in the Group's e-health businesses amounted to £1.8m (2001: £1.6m). Nonetheless, the operating profit achieved in the Division increased significantly, mainly because of the contribution from MAP. Excluding the MAP contract, and the loss from e-Health, both non-recurring items, operating profit in the Division was £4.4m (2001: £3.1m).

In the Healthcare Services Division, the operating margin increased to 8.3% (2001: 6.0%). This increase was as a result of the high margin MAP contract but was partly offset by the reduced margin in the Primecare Primary Care out-of-hours business which was approximately 3.5%. Excluding MAP and e-Health, the 2002 operating margin in the Healthcare Services Division was 3.5% (2001: 4.2%).

Goodwill

Goodwill on the balance sheet at the year end amounted to £139.2m (2001: £152.5m). This reduction comprised goodwill amortisation of £7.7m and an exceptional write-down of £15.0m in the goodwill attributable to Healthcall following the loss of the MAP contract offset by goodwill on acquisitions made during the year of £8.4m and adjustments in respect of prior year acquisitions of £1.0m.

Exceptional items

During the first half of the year, the decision was taken to restructure the Primary Care out-of-hours business by closing its head office and consolidating its call-handling function from 29 locations down to two national clinical response centres. The plans for this restructuring were announced in June 2002. Costs incurred in the year in respect of this project amounted to £3.1m. These costs primarily comprise redundancy and other related costs. Given the size and one-off nature of these costs, they have been shown on the face of the profit and loss account as part of exceptional items. A tax credit of £0.8m has been recorded in respect of these exceptional costs.

An exceptional gain of £0.8m arose on the sale of the Group's 51% interest in Hertford Medical International Limited in August 2002. There is no tax charge associated with this exceptional gain.

20.4%

Turnover for the Group increased by 20.4% to £482.7m (2001: £401m).

Pre-tax profit

Profit before tax, exceptional items and goodwill amortisation amounted to £33.1m (2001: £23.9m), up 38.5%. The increase was less than the increase in operating profit of 46.3% because of the higher interest charge of £4.2m (2001: £1.5m) reflecting the higher net borrowings in the year.

Taxation

The tax charge for the year was £6.2m (2001: £6.0m). The average tax rate on profit before goodwill amortisation and exceptional items was 21% (2001: 29%). The lower average tax rate arose primarily for two reasons. Firstly, a significant tax credit amounting to £0.9m arose as a result of a successful reclaim of tax by the Group relating to under-let properties. Secondly, the Group reorganised its legal structure during the year in order to achieve efficiencies in administration, accounting, audit and taxation compliance work. The reorganisation was undertaken in a tax efficient way such that, after taking into account other items affecting the effective tax rate, the tax charge for the year was reduced by approximately £2.0m. Excluding these items the normalised rate is 30%.

Earnings per share

The basic adjusted earnings per share, before exceptional items and goodwill amortisation, were 29.8p (2001: 20.5p) an increase of 45.4%. This reflects the increase in pre-tax profit, the lower average tax rate and the higher average number of shares in issue. The FRS 3 earnings per share (which is after taking account of goodwill amortisation and exceptional items) were 2.18p (2001: 11.55p).

Cash flow and borrowings

Closing net borrowings for the Group amounted to £59.8m (2001: £75.4m) a reduction of £15.6m. Cash flow from operations amounted to £54.1m, an increase of £29.5m on the previous year. This included an improvement in working capital movements of £15.3m. This was due largely to an excellent reduction in debtors, particularly in the Healthcare Personnel Division.

Excluding the net effect of acquisitions and sale of businesses and the net cash flow from financing, there was a £27.4m net cash inflow (2001: £4.8m).

Net capital expenditure was £6.7m (2001: £4.5m) and consists mainly of the investment in the two new Primary Care clinical response centres of £3.8m, the purchase of motor vehicles for staff and the investment in systems hardware and software to support the business, offset by the proceeds from the sale of fixed assets of £1.2m.

Dividends, interest and corporation tax amounted to a net payment of £17.6m (2001: £13.1m).

The issue of shares raised a net £0.8m (2001: £38.3m).

Equity shareholders' funds

Equity shareholders' funds reduced from £93.3m in 2001 to £87.5m, a reduction of £5.8m reflecting a retained loss of £6.5m (the loss arising due to the exceptional write-off of goodwill of £15.0m) and the proceeds from the issue of new shares of £0.8m.

Acquisitions

Eleven new businesses were acquired during the year for an aggregate purchase consideration of £8.5m plus costs of £0.4m.

The aggregate cash outflow in respect of purchases in the year was £13.2m. This included £4.6m paid in settlement of the deferred consideration and costs for prior year acquisitions.

Goodwill arising on the year's acquisitions amounted to £8.4m. In addition, adjustments to the consideration and the fair values attributed to the businesses acquired in 2001 resulted in a net increase in goodwill of £1.0m. In line with FRS10, the Group's policy has been to capitalise goodwill on acquisitions made since 1998 and to amortise over their useful lives, all of which have been estimated at 20 years.

Pensions

In accordance with FRS17, Retirements Benefits, the Group is required to compare the market value of the assets of its two deferred benefit pension funds at the year end with the actuarial liabilities of those funds. At 31st December 2002, the pension funds' assets amounted to a total of £14.7m (2001: £16.5m) compared with total liabilities of £27.5m (2001: £22.2m), a net aggregate deficit of £12.8m (2001: £5.7m) of which £4.7m (2001: £1.5m) relating to the formal valuation of the

Healthcall Scheme at the date of acquisition has been recognised as a liability and treated as a fair value adjustment in the hindsight period. In accordance with the transitional arrangements of FRS17, the remaining deficit of £8.1m has not been recognised on the balance sheet. The £4.7m liability is being met by future annual payments of £0.5m and the remaining £8.1m deficit will be met from future contributions to be determined at the next actuarial valuations.

Treasury management and financial instruments

Financial instruments include all assets and liabilities of a financial nature such as cash, loans, finance leases, overdrafts and long-term liabilities.

All such instruments play an important part in the operations of the Group to enable it to operate smoothly and efficiently and to pay its obligations as they fall due. They also enable the company to fulfil its investment strategy including making appropriate acquisitions.

The Group's objective is to use financial instruments to minimise the cost of capital at an acceptably low financial risk and to maximise flexibility to take advantage of investment and acquisition opportunities as they arise.

The Group is primarily a UK healthcare business and does not have significant exposure to foreign exchange risks. Nevertheless the Group's strategy is to hedge its foreign exchange exposure where it arises with foreign currency loans or forward exchange contracts as appropriate.

The main risks arising from the Group's financial instruments are interest rate and liquidity risks. The Board considers each of these risks on a regular basis and the Group's stance towards each of these risks has remained unchanged.

The Group currently has in place £95m of committed borrowing facilities at a margin of 0.75% above LIBOR and due for repayment in 2006. In addition, uncommitted overdraft facilities of £15.0m were renewed during the year. At the end of the year, the Group had borrowings less cash of £59.8m (2001: £75.4m) and undrawn committed borrowing facilities of £29.3m. It is, and has been throughout the year, the Group's policy that no trading in financial instruments will be undertaken. The Group entered into a hedging arrangement in November which has the effect of fixing £35m of its borrowing within an acceptable range of interest rates for four years.

Controls

Financial and operational controls have continued to be strengthened across the Group. The procedures to monitor and manage key risks have been used throughout the year and enhanced further. The Group's internal audit function, which is outsourced to Deloitte & Touche, continues to play a key role in this process.

David Lyon, Group Finance Director
3rd March 2003

Financial and operational controls have continued to be strengthened across the Group. The procedures to monitor and manage key risks have been used throughout the year and enhanced further.

£54.1m

Cash flow from operations amounted to £54.1m, an increase of £29.5m on the previous year.

Clinical Governance

Clinical Governance is the process whereby a healthcare provider can ensure and demonstrate that the services it provides are safe and meet externally accepted standards by ensuring that the clinicians it employs and with whom it works are suitably qualified and supervised and perform to an appropriate standard. The concept of clinical governance was introduced into NHS practice over the last five years or so but applies equally to any organisation which provides clinical services.

Nestor has been very active in the last year in developing and delivering systems of clinical governance which meet these objectives, thereby protecting shareholder value. Clinical governance is important not only as part of the provision of our own services and overall governance structure, but because our customers will expect us to have appropriate systems, and to demonstrate that we are making use of them.

The Group's clinical governance structure is shown diagrammatically in figure 1. On the left of the chart are the internal structures. In each operating business, a committee of clinicians and managers (the "Clinical Management Forum" or CMF) meets regularly to consider the clinical issues which face the business and to ensure that it stays abreast of changes in professional standards and regulation. Each CMF produces a clinical risk register which is updated quarterly, and which confirms to each Managing Director that clinical risks have been identified and controlled. Each of these CMFs reports to the Group's Clinical Risk Management Group, whose function is to take a Group-wide view of clinical issues to ensure issues and risks are identified and that best practice is shared.

To the right-hand side of figure 1 is our external advisory group, the Clinical Advisory Board. This meets four times yearly, and is chaired by Professor Sir Duncan Nichol. Its purpose is to receive reports from the Group Medical Director and to consider issues and thinking in the wider clinical community which is of importance to the Group. We are fortunate to have the guidance of experienced clinicians and lay members who make a valuable contribution to our work. As I write, the Clinical Advisory Board is to review our confidential reporting and "whistle-blowing" provisions.

Nestor has been actively developing systems to meet Government objectives on clinical governance, whereby services are delivered safely by suitably qualified people to an appropriate standard.

An important element of the Group's clinical governance activities is to ensure that complaints are properly recorded, managed and learned from. Figure 2 demonstrates the three areas relevant to handling complaints: dealing with individual episode of dissatisfaction, learning from mistakes and demonstrating to our peers and customers that our systems are robust and effective. The latter is particularly important as new regulatory bodies such as the National Patients Safety Agency and the National Clinical Assessment Authority will require us to consider patient safety and clinical performance and individual customers will expect us to comply.

Across the Group, all complaints are logged and categorised. All serious complaints are reviewed promptly by the Group Medical Director, and subsequently by the Clinical Risk Management Group. Group-wide procedures for collecting information in relation to serious complaints, based upon the Department of Health document "An Organisation with a Memory" (DoH 2000) ensure that proper assessment of these incidents takes place and weaknesses in structures and services are identified and changed.

We have defined a Group standard for complaints which categorises them according to the severity of clinical risk. We have also developed a series of key performance indicators against which the performance of the businesses in managing clinical governance of their business is measured. These indicators are reported monthly to the Group Medical Director and hence to the Main Board.

An organisation such as Nestor Healthcare Group with its many millions of patient contacts and tens of thousands of hours of care provided daily which is "stretching the envelope" of providing clinical services, must expect its share of issues, problems and complaints. We are promoting a blame-free culture where issues are reported and addressed in an open and constructive way. This is no short task, but rather part of our firm commitment to quality services and quality assurance within them. We work in a time when greater regulation, statutory supervision and defined professional responsibilities are expected to provide greater patient safety and are expected from us. Nestor Healthcare Group is well placed to rise to these challenges.

Dr William Holmes
Group Medical Director
3rd March 2003

Nestor promotes a blame-free culture where issues are reported and addressed in an open and constructive way. This is part of our firm commitment to quality services and quality assurance within them.

Employees and Social Responsibility

Leadership Development

2002 has seen significant change to the organisation which has allowed the Group to provide excellent development opportunities for its existing staff, whilst at the same time actively recruiting new leaders in certain key businesses. The Group believes that this continued focus on the balance of internal and external development of talent is crucial to its future success. The value of experienced high-performing staff will be regularly enhanced by the recruitment of external personnel, who continually bring fresh ideas and challenges to the Group.

This year, we have continued to focus on skills training of both employees and "members", to meet the standards set by both our customers and recent Government initiatives, for example, Care Standards, which are due to be implemented in April.

The changes to the organisation's structures and personnel, particularly in our Primecare Primary Care business will continue throughout 2003 and although these changes will result in the re-alignment of the workforce, there remains a strong need to complement these with in-depth training on the new skills, processes and technology that will allow for future prosperity.

Employee Involvement

The Group believes that involving its employees in all aspects of its business, particularly the economic and financial factors affecting the Group's performance, is crucial to its future success. It is always seeking ways to improve communication across its businesses, both between its central and operational functions and between the various operations themselves.

Established consultative arrangements with elected representatives of employees have been used on an ongoing basis throughout 2002, firstly as an important means of imparting knowledge and information to employees and secondly to facilitate the significant changes that the Group has gone through during the year.

It is the Group's policy to encourage employees to participate in its success, through a variety of performance-related incentive arrangements, including the provision of savings-related share option2 schemes.

Internal circulars and newsletters are issued regularly, increasingly through the use of new media to reach our employees faster and more effectively. The Group is also upgrading its IT infrastructure that will allow even more timely and comprehensive information to reach its employees on a regular basis.

Health and Safety

The Board is aware of its responsibilities towards its employees and all users of the Group's services in health and safety matters. It recognises its ultimate responsibility for the setting and monitoring of appropriate policies, guidelines and practices in the formal Schedule of Matters Reserved for the Board's consideration. During the year a comprehensive review has taken place of the entire Group's Health and Safety policies and procedures. This has been essential to ensure that the standards are consistent across the Group, particularly given its expansion through the acquisition of a number of small businesses throughout the year.

The Group's Director of Human Resources is directly accountable to the Chief Executive for overseeing the implementation of the recommendations of the review and is working closely with the Divisional Managing Directors to roll out the revised policies and reporting arrangements. A report of achievement against strategy is prepared for the Board's consideration on a semi-annual basis.

Each of the Group's two divisions have established health and safety committees which met regularly during the year to monitor the implementation of the

This year, we have continued to focus on skills training of both employees and members, to meet standards set not only by Government initiatives but also by our customers.

Employees and Social Responsibility continued

Group's health and safety strategy across the businesses for which they are responsible. The membership of each includes representatives from the Group's health and safety committee, along with managers and HR professionals from the various businesses.

In addition to the above, an ongoing training programme supports the effective implementation of this process which is based on a comprehensive series of risk assessments and reporting arrangements.

Charity of the Year

As part of its commitment to UK health and social care, the Group asks many of its branches every year to vote for the organisation or charity they would like to support as Charity of the Year.

Throughout 2002, the Group supported fundraising activities on behalf of the Christian Lewis Trust. This is a UK charity supporting children with cancer and their families.

The Group is always looking for new ways in which to involve its employees in the communities in which they are based. A number of successful programmes were run throughout 2002, ranging from dress-down days to sponsored runs. It also initiated a number of projects intended to benefit the environment as well as raise funds for charitable causes, such as recycling used toner cartridges. Throughout the UK, the Group's branches regularly support charities pertinent to their own locality or business sector, as well as the Charity of the Year.

Environmental policy

As a service-based organisation, with no manufacturing and limited transportation facilities, the Group's exposure to environmental risk is limited, as is its ability to control the environmental impact of its activities.

However, the Group and its businesses are committed to following the best environmental practices in the day-to-day conduct of their business and the management of their resources and facilities. During the year, the Group continued to refine the formal environmental policy adopted by the Board in 2000 and completed its roll-out to all newly-acquired Group businesses. The policy document, which is directed at minimising the potential impact of the Group's operations on the environment, provides that the Group's Board retains ultimate responsibility for setting and monitoring its policy on environmental matters.

The policy provides for the promotion of an understanding of environmental consideration across the Group and all managers are directed to encourage staff to follow the good practice outlined in the policy at all times.

The aims of the Group's environmental policy are:

- to take all practical steps to ensure the Group's business activities have the minimum negative impact on the environment
- to achieve the most economic and careful use of sources of fuel and energy
- to minimise the production of waste
- to make the maximum practical use of recycling.

The policy also provides that the Board is ultimately responsible for ensuring that the obligations imposed by all current and future environmental legislation are met.

Responsibility for the co-ordination of the policy throughout the Group rests with the Board, with the Chief Executive having specific responsibility. The policy is administered by the Group's Director of Human Resources.

The Group and its businesses are committed to following the best environmental practices in the day-to-day conduct of their businesses and management of their resources and facilities.

Specialist advisors are appointed by the Director of Human Resources as required to ensure that best practice is followed, that the Group is aware of potential opportunities to improve performance and that all legislative and statutory requirements are met.

The directors of the Group's operating companies are responsible for ensuring compliance with the policy. Where appropriate, departmental representatives or co-ordinators have been appointed to act as advisors and a focal point for the dissemination of information and the promotion of initiatives to improve the immediate environment, reducing waste and ensuring that the objectives of the policy are met. Where practicable, paper and other comestibles are recycled and all employees are encouraged to operate the business in as environmentally-friendly a manner as possible.

Ethical Matters

The Board has adopted a formal Code of Business Conduct, covering all the businesses in the Group, which consolidated all of the various codes previously applicable to them. The Code provides comprehensive guidelines to all employees and "members" as to the standard of business ethics expected from them as representatives of the Group. It also recognises the importance to the Group of operating to the highest possible ethical standards, bearing in mind the nature of the services offered by Group companies and the needs of their clients.

At the Group's Business Resource Centre in Hatfield, most gifts received by members of staff from suppliers and potential suppliers are auctioned amongst all staff (where practicable) and the proceeds of such auctions are donated to the Group's Charity of the Year.

All senior managers are required to declare, on an annual basis, any hospitality received during the year in their capacity as employees of the Group and to disclose any interests they may have in connected or competing organisations. These declarations are monitored by the Group Company Secretary and reported to the Board at the end of each year.

All Board members are required, once a year, to submit their annual expense claims to the scrutiny of the entire Board.

Emma Thomas,
Group Company Secretary
3rd March 2003

A formal Code of Business Conduct provides comprehensive guidelines to all employees and members as to the extremely high ethical standards expected of them as representatives of Nestor.

Board of Directors

Antony Beevor
Non-executive Chairman
(62), was appointed non-executive Chairman in January 2002, having served as a non-executive director since October 2000. Previously, he was head of Corporate Finance at Hambros and, from 1988-90, Director General at the Panel of Takeovers and Mergers. He is also Chairman of Croda International Plc, a Deputy Chairman of the Takeover Panel and a non-executive director of Helical Bar plc.

He is a member of the Board's Audit and Remuneration Committees.

Justin Jewitt
Chief Executive
(48), was appointed to the Board in July 1996 and as Chief Executive in January 1998. He joined the Group in May 1994 as Managing Director of BNA, its largest subsidiary. Previously, he was Managing Director of two BET businesses, prior to which he worked for Mobil Oil and Thorn-EMI. He is an External Professor of the University of Glamorgan and Chairman of its Health Industry Advisory Group.

David Lyon
Group Finance Director
(41), was appointed to the Board in January 1998 as Group Finance Director. A chartered accountant, he joined the Company in 1991 as Group Financial Controller, prior to which he held positions in Ernst & Whinney, Price Waterhouse and Whitbread plc.

Stephen Booty
Managing Director, Healthcare Personnel Division
(48), was appointed to the Board in June 2002, having joined the Group in January 2002, as Managing Director, Healthcare Personnel Division. He has over twenty years experience in the fast moving consumer goods sector, working for "blue chip" organisations, marketing branded goods and driving efficiencies through innovative business processes. Stephen's previous roles include Chief Operating Officer, Europe at Chep International and senior sales, management and operational roles at Kimberly-Clark and Scott Paper.

Stephen Page
Managing Director, Healthcare Services Division
(40), was appointed to the Board in March 2001, having joined the Group in November 2000. Previously, he was Managing Director at Priory Healthcare Group plc between 1998 and 2000. Between 1993 and 1998 he was Chief Executive Officer of Oxleas NHS Trust, the NHS provider of community and mental health services to the London Boroughs of Greenwich, Bexley and Bromley. He has an MBA from the London Business School.

Dr William Holmes
Group Medical Director
(48), was appointed to the Board as a non-executive director in January 2000 and as the Group's executive Medical Director in October 2001. His executive responsibilities include the developing and monitoring of clinical standards and leading a team to provide clinical governance across the Group. He is a Fellow of the Royal College of Physicians of London and a Fellow of the Royal College of General Practitioners. In addition to his corporate responsibilities, he continues to undertake regular clinical sessions in general practice and occupational medicine.

Antony Beevor Non-executive Chairman

Justin Jewitt Chief Executive

Stephen Booty Executive Director

Stephen Page Executive Director

Dr William Holmes Executive Director

Ingrid Alexander, CBE
Non-executive Director

(51), was appointed to the Board in August 2001. An independent management consultant, she is currently a member of the Kings Fund Grants Committee and was the final Chairperson of the Central Council for Education and Training in Social Work (Residuary Body). She is a former member of the General Social Care Council Advisory Group and the Strategy Group for the NHS Chief Executive's leadership programme and has worked widely with a number of other organisations in the health and social care field. Previously, she was Assistant Director for Resources at Birmingham City Council.

She is a member of the Board's Audit and Remuneration Committees.

Tim Harris, CBE
Non-executive Director

(55) was appointed to the Board in January 2002. Prior to his retirement in 2000, he was Assistant Managing Director of P&O where he was responsible for creating and developing its cruise activities, subsequently de-merged as P&O Princess and oversaw the merger of its container business to form the Anglo-Dutch P&O Nedlloyd. He is also Chairman of James Fisher and Sons, the marine services provider.

He is a member of the Board's Audit and Remuneration Committees.

David Howell
Non-executive Director

(53), was appointed to the Board in August 1999. He is a chartered accountant and Chief Financial Officer and Executive Director of lastminute.com plc. From 1997 to 2001 he was Group Finance Director of First Choice Holidays PLC and was previously Group Finance Director at Central Transport Rental Group PLC and Chief Executive Officer at GN Comtext Ltd, a major subsidiary of GN Great Nordic Ltd.

He is Chairman of the Board's Audit Committee and is a member of its Remuneration Committee.

Robert Nicholls, CBE
Non-executive Director

(63), was appointed to the Board in 1997. Formerly a senior NHS manager, he is now an independent healthcare management consultant, lay member of the GMC and an associate consultant on health management for the British Council. He sits on the Resolve Advisory Board and the Clinical Education Board of Oxford Medical School.

He is the senior non-executive director and Chairman of the Remuneration Committee. He is also a member of the Board's Audit Committee.

Emma Thomas
Group Company Secretary

(36) joined the Group as Group Company Secretary in August 1998. A qualified solicitor, she is also Secretary to the Board's various Committees and is a trustee of two of the Group's pension schemes. Previously, she was Group Company Secretary of Hazlewood Foods plc, Assistant Company Secretary of Kingfisher plc and an assistant solicitor at Richards Butler.

Ingrid Alexander Non-executive Director

Tim Harris Non-executive Director

David Howell Non-executive Director

Robert Nicholls Non-executive Director

Emma Thomas Group Company Secretary

Directors' Report

The directors are pleased to present their report and the audited financial statements for the year ended 31st December 2002.

Principal activities, results and future developments
Nestor Healthcare Group plc is the holding company of a group of companies in the healthcare sector. Its principal activities are organised into two divisions, Healthcare Personnel and Healthcare Services, and comprise:

- the provision of nurses and carers, locum doctors and other medical personnel;
- the provision of out-of-hours doctors' deputising services through the largest independent network of out-of-hours GP services in the UK;
- the provision of medical staff to the Benefits Agency Medical Services;
- the provision of homecare personnel through a network of franchise branches across the UK;
- the provision of healthcare and related services to Police Authorities and secure institutions; and
- the provision of nurse-led disease management services.

The Chairman's Statement, Operating and Financial Reviews on pages 4 to 20 provide a report on the Group's activities, trading results and future developments.

Results and dividends
The profit attributable to shareholders was £1,908,000 (2001: £9,479,000). An interim dividend of 3.48 pence per ordinary share was paid to shareholders on 18th October 2002. The directors now recommend a final dividend of 6.14 pence per ordinary share, to be paid to shareholders on 6th June 2003. Following payment of all dividends for the year, totalling 9.62 pence, the deficit of £6,505,000 will be absorbed by the Group's reserves.

Directors
The directors who served during the year were I C Alexander, A R Beevor, R I Burns, T C Harris, W F Holmes, M D R Horgan, D Howell, J A S Jewitt, D O Lyon, R M Nicholls, S R Page and S M Booty.

R I Burns was appointed to the Board on 1st January 2002 as an executive director and T C Harris was appointed as an additional independent non-executive director on the same date. S M Booty was appointed as a director on 19th June 2002. R I Burns resigned as a director on 30th October 2002. M D R Horgan resigned as a director on 4th March 2002 but remains a full-time employee of the Group.

In accordance with the Articles of Association, S M Booty will retire at the Annual General Meeting and, being eligible, will offer himself for re-election. W F Holmes, D Howell and S R Page will retire by rotation and, being eligible, will offer themselves for re-election.

It is expected that M Ellis will be appointed as a director of the Company in April 2003. Accordingly, a resolution will be put to the forthcoming Annual General Meeting for his re-election.

S M Booty, W F Holmes and S R Page have service agreements with the Company that are subject to twelve months' notice from the company; D Howell holds office by virtue of a letter of appointment, providing for a term of office expiring three years from the date of his appointment, extended by three years. Mr Ellis does not yet have a service agreement with the Company but his offer of employment provides for twelve months' notice of termination from the Company.

Directors' interests
All directors' interests, including details of shareholdings, are set out in the Remuneration Report of the Board on pages 31 to 37.

Substantial shareholdings
At the date of this report the Company has been notified of the following material interests of 3% or more and non-material interests of 10% or more in its ordinary share capital:

	Number	Percentage of issued share capital
AXA Investment Managers UK Limited	4,451,871	5.09%
Scottish Widows Investment Partnership Limited	4,068,875	4.65%
Fidelity International Limited	3,090,333	3.53%
Legal & General Investment Management Limited	2,662,346	3.04%

Share capital
Details of the authorised and issued share capital of the Company during the year ended 31st December 2002 are given at Note 23 to the financial statements.

Annual General Meeting – special business

The Annual General Meeting of the Company will take place at The Millennium Hotel, Grosvenor Square, London W1K 2HP on Tuesday 3rd June 2003 at 12.30 pm. The notice of the Annual General Meeting may be found in the Notice of Meeting. In addition to the routine business of the meeting, the following special business will be transacted:

- Directors' authority to issue shares (Resolution 10)
  The Companies Act 1985 ("the Act"), prevents directors from allotting unissued securities without the authority of shareholders. In certain circumstances this could be unduly restrictive. The proposed resolution will give the directors a general authority to issue shares of the Company for cash, within certain constraints, without complying with the statutory pre-emption procedures. The total number of relevant shares that the directors will have the authority to allot will be 8,500,000 ordinary shares of 10p each (representing 9.7% of the share capital currently in issue). The directors have no present intention to exercise this authority (except in relation to the allotment of shares under the Group's share option schemes). The authority in Resolution 10 will expire at the conclusion of the next Annual General Meeting or on 2nd September 2004, whichever is the earlier.

- Restricted disapplication of pre-emption rights (Resolution 11)
  The proposed special resolution will give the directors a limited authority to issue equity shares for cash other than to existing shareholders in proportion to their existing shareholdings notwithstanding the pre-emption provisions of Section 89 of the Act. This limited authority would allow the directors to make such issues provided they do not exceed in aggregate an amount equal to 5% of the issued share capital of the Company. The resolution also contains provisions enabling the directors to take action to overcome certain practical difficulties that could arise in the case of a rights issue. The authority in Resolution 11 will expire on the conclusion of the next Annual General Meeting or on 2nd September 2004, whichever is the earlier.

- Purchase by the Company of its own shares (Resolution 12)
  The directors consider that it would be advantageous for the Company to renew for a further year the existing authority granted at last year's Annual General Meeting, to allow the use of the Company's available cash resources to acquire its own shares in the market for cancellation. This authority is granted pursuant to Section 162 of the Act.

  Accordingly, a special resolution is proposed to authorise the purchase in the market of up to 10% of the issued ordinary shares of the Company at a price of not more than 105% of the average of the middle market quotations for the ordinary shares of the Company (as derived from the London Stock Exchange Daily Official List) for the five business days prior to the date of purchase.

  The directors do not intend to exercise the Company's power to purchase its own shares other than in circumstances where they consider this to be in the shareholders' interests and where this would result in an increase in earnings per share. They have no present intention to exercise this authority.

- Reappointment of PricewaterhouseCoopers LLP as auditors to the Company
  Following the conversion of the Group's auditors, PricewaterhouseCoopers, to a Limited Liability Partnership (LLP) from 1st January 2003, PricewaterhouseCoopers resigned on 25th February 2003 and the directors appointed their successors, PricewaterhouseCoopers LLP, as auditors. A resolution to reappoint PricewaterhouseCoopers LLP as auditors to the Company will be proposed at the Annual General Meeting.

Charitable and political donations

No political donations were made during the year. Charitable donations of £1,170 were made in 2002 (2001: £1,850).

Taxation status

The Company is not a close company within the meaning of the Income and Corporation Taxes Act 1988.

Directors' Report continued

Disabled employees

It is the Group's policy that disabled persons should be considered for employment, training, career development and promotion on the basis of their abilities and aptitudes in common with all employees.

The Group applies employment policies that are fair and equitable for all employees and which ensure entry into and progression within the Group are determined solely by application of job criteria and personal ability and competency.

Full and fair consideration (having regard to the person's particular aptitudes and abilities) is given to applications for employment and the career development of disabled persons. The Group's training and development policies make it clear that the Group will take all steps practicable to ensure that employees who become disabled during the time they are employed by the Group are able to continue to perform their duties.

Employee involvement

The Group attaches considerable importance to ensuring that all its employees are provided with information concerning them as employees, particularly the economic and financial factors affecting the Group's performance and the market in which the Group operates. Involvement of employees in the Group's performance is also encouraged by the availability of performance-related bonuses as well as share option schemes, which are described in more detail elsewhere in this report.

Internal circulars and newsletters are issued regularly and consultation between management and staff is an ongoing process. Employees are consulted on issues directly affecting them wherever practicable. Further details of the Group's policies and practices relating to employee involvement may be found on page 23 of this report.

Creditor payment policy

It is the Group's policy to have appropriate terms and conditions for transactions with suppliers, ranging from standard terms and conditions to those which have been specifically negotiated, and that in the absence of dispute, payment will be made in accordance with those terms and conditions and conforming to the CBI Code of Best Practice; copies are available from the CBI at Centrepoint, 103 New Oxford Street, London.

The directors' reports of the Group's United Kingdom operating companies give information about their creditor payment policies as required by the Companies Act. The Company, as a holding company, does not itself make any relevant payments in this respect.

Auditors

A resolution proposing the reappointment of PricewaterhouseCoopers LLP, Chartered Accountants, as auditors to the Company and authorising the directors to determine their remuneration will be put to the Annual General Meeting.

Approved by the Board on 3rd March 2003 and signed on its behalf by:

Emma Thomas
Group Company Secretary

Directors' Responsibilities

In respect of the preparation of financial statements:
The directors are required by company law to prepare financial statements which give a true and fair view of the state of affairs of the Company and the Group at the end of the financial year and of the profit and cash flows of the Group for the period to that date. The financial statements must be prepared in compliance with the required formats and disclosures of the Companies Act 1985 and in accordance with applicable accounting standards. In addition, the directors are required:

- to adopt suitable accounting policies and apply them consistently;
- to make judgements and estimates that are reasonable and prudent;
- to take account of expenses and income relating to the period being reported on, whether or not they have been paid or received in that period; and
- to prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors confirm that the financial statements comply with the above requirements.

The directors are also responsible for the maintenance and integrity of the Nestor Healthcare Group plc web sites on which the financial statements are published. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The directors are also responsible for maintaining adequate accounting records so as to ensure that the financial statements comply with the requirements of the Companies Act, for safeguarding the assets of the Group, and for preventing and detecting fraud and other irregularities.

Remuneration Report

The Board is pleased to present its remuneration report for the year ended 31st December 2002.

Remuneration Committee

During the year, the Board delegated its powers to determine the Company's remuneration policy for senior executives, including executive directors, to the Remuneration Committee ("the Committee"), the members of which during the year were Robert Nicholls (Chairman), David Howell, Antony Beevor, Ingrid Alexander and Timothy Harris, all of whom are regarded by the Company as independent non-executive directors. Further details relating to the Committee may be found on page 39 of this report.

In determining its policy, the Committee has paid regard to the principles and provisions of good governance contained in the Combined Code published by the Committee on Corporate Governance. It has also received advice on executive remuneration from New Bridge Street Consultants, which during the year was confirmed by the Committee as its retained advisor. The Committee has also received material assistance from Justin Jewitt, the Group's Chief Executive, James Buchanan, the Group's Director of Human Resources and Emma Thomas, the Group Company Secretary, all of whom attend meetings of the Committee as required and not in respect of matters relating directly to their own remuneration.

The Company has also instructed New Bridge Street Consultants to advise it on certain ad hoc matters during the year, for example in relation to certain pensions matters and the administration of the Company's share schemes, and has separate terms of engagement with the firm.

Remuneration Policy

The Committee's overall aim is to provide a package of remuneration which is sufficient but no more than is necessary to attract, retain and motivate all of the Company's senior management, including executive directors, to reward good performance with remuneration that is in line with that payable in broadly comparable businesses and to reward exceptional performance in such a way as to align the executives' interests with those of the Group's shareholders. To that end, the Committee structures executive remuneration in three component parts. Overall, the executive directors' remuneration packages incorporates a significant element of variable performance-related pay, which comprises annual bonus and long-term incentives:

- Basic salary and benefits

  Basic salary is determined by reference to the responsibilities and performance of the individual during the year, taking into account experience and the rates of basic pay for similar roles in comparable companies. In addition to the basic salary and items described below, the Company provides a range of benefits to executive directors, the most significant of which are a fully expensed car or cash alternative and pension benefits. The Committee's overall aim remains to ensure that the cash remuneration paid to the Group's senior managers is broadly in line with the median of that paid by comparable businesses, having particular regard to their size and complexity and remains competitive to retain them. Salaries are reviewed annually, normally in November of each year and any increases usually take effect from 1st January in the following year. It is the Committee's practice to undertake market reviews of directors' and senior managers' salaries, with the assistance of New Bridge Street Consultants, every two years. At present, executive directors' basic salaries range from £129,000 to £250,000 for the Chief Executive.

- Cash bonus

  Each year, the Committee sets stretching bonus targets for each executive, aiming to achieve a balance between short- and medium-term objectives. Targets comprise individual performance criteria specific to the executive's role and overall Company performance including profit before tax, earnings per share and cash generation. In the scheme in operation during 2002, no bonus was payable unless the Group's profitability met certain stringent targets relating to the Company's profit growth, whether or not the executive achieved his individual objectives. With effect from 2003, the Committee has adopted a revised bonus scheme, in respect of which bonuses for executive directors will be based on a combination of the achievement of specific profit targets (earnings per share for the Group as a whole and profit growth for each division where appropriate) and the achievement of personal targets aligned to those areas for which they are specifically responsible. Up to 80% of the total maximum bonus will be payable in respect of financial targets and up to 20% of the total maximum bonus is payable if the executive meets all of his personal objectives in full. No bonus is payable if the relevant financial targets are not met.

  With effect from 2003, the maximum bonus payable to executive directors will be 80% of salary (excluding that payable to William Holmes, which will remain 50% of salary). However, these directors will be required to invest half of any post-tax annual bonus received in the Group's Long Term Incentive Plan, which was introduced in May 2002, following its approval by shareholders at the Company's Annual General Meeting. Details of this plan are provided later in this report.

  Bonuses are not pensionable.

- Share options

  The Board believes that share ownership by senior executives encourages superior performance, since the interests of management and shareholders are thereby aligned. The Board further believes that the provision of share schemes to the Group's managers should be structured in such a way as to encourage them to achieve its long-term aims and that the Group's most senior managers, including executive directors, should be given the opportunity to aim for exceptional performance with potentially significant rewards. Accordingly, it is the Committee's policy to grant share options to executive directors, as well as to other employees, provided adequate performance has been demonstrated. Options are not exercisable unless the Company has met challenging performance targets as determined by the Committee, details of which are outlined below.

Employee share option schemes

The Company operates a number of employee share option schemes available to executive directors and to middle and senior managers, all of which (except the savings related option scheme) have performance conditions attached to them and details of which are outlined below. It also operates a Long Term Incentive Plan ("LTIP"), available to certain executive directors. The performance criteria applicable to these schemes are also outlined below.

It is the Company's policy regularly to grant share options, on a tiered basis, to a broad range of middle and senior management, including executive directors. In previous years, options have been granted annually to executive directors, at a rate of one times salary, although in exceptional cases, where a key executive joins the Group, a higher limit has been applied. In 2002, following approval by the Company's shareholders of the LTIP and the Nestor Healthcare Group Share Option Plan 2002 ("the 2002 Plan"), the Committee granted options to executive directors under the 2002 Plan, including, to certain directors, options from the "super" option section of that plan as well. In 2003, the Committee intends to invite certain directors (namely Justin Jewitt, Stephen Booty and Stephen Page) to participate in the LTIP, using bonuses received in 2004 in respect of their performance in 2003. It does not intend to grant "super" options to directors in the same financial year as they participate in the LTIP.

The Committee has determined that the exercise of options held under the Company Share Option Plan 1996 and the Employee Share Option Scheme 1996 is conditional on growth in the Company's normalised earnings per share of at least 5% per annum above the growth in the UK retail prices index over three consecutive financial years beginning with the financial year prior to the date of grant and continuing throughout the period during which the option is exercisable. Following the introduction of the 2002 Plan and LTIP in 2002, the Committee does not intend to grant any further options under both the 1996 Schemes.

The 2002 Plan and the LTIP were adopted by the Company following approval by shareholders at its Annual General Meeting in May 2002. In proposing and adopting the schemes, the Committee took extensive advice from New Bridge Street Consultants and sought and obtained the prior approval of a number of the Company's largest shareholders. In formulating the schemes, the Committee had regard to current best practice relating to such arrangements, including the current guidelines of the Association of British Insurers ("ABI") and National Association of Pension Funds ("NAPF") and sought to reflect both best practice and the guidelines in both schemes.

For options granted under the 2002 Plan in 2003, the exercise of options granted to the Group's senior managers will be conditional upon average growth in the Company's normalised earnings per share of at least 5% per annum above the UK retail prices index ("RPI") over a three-year period. In respect of the Group's most senior managers, including all executive directors, a range of EPS targets will apply to grants such that the first third of an option may be exercised if the Company's average earnings per share growth exceeds an average of RPI plus 5% per annum, the second third of the option is subject to an average earnings per share growth of 6% per annum above RPI and the final third is only exercisable if the Company's average earnings per share growth exceeds 10% above RPI. In all cases, performance is initially tested over a three-year period, although there are two opportunities to re-test the earnings per share performance targets after years four and five, using the year of grant as the base year. Earnings per share was chosen as the relevant benchmark for the measurement of the Company's performance since the target requires substantial improvement in underlying financial performance before options may be exercised. This complements the requirement inherent in an option, which is to grow the share price. The range of EPS targets are considered to be appropriately stretching, generating higher potential reward levels for higher levels of financial performance. Executive directors normally receive options equating to one year's salary annually.

In addition to granting options on the basis described above, the 2002 Plan also provides for the grant of "super" options to certain of the Group's most senior managers, including executive directors, although in future years the Committee intends to grant these "super" options to the Group's senior managers excluding those executive directors who can expect to receive LTIPs. These options may be granted over shares worth up to one and a half times the individual's salary and the exercise of these options is subject to the achievement of more stretching targets than those prescribed by the Committee in relation to the Group's other share option schemes. It is intended that any grants of "super" options made in 2003 will have the same performance targets as those in 2002. This is based on the Company's total shareholder return ("TSR"), compared with other companies in the FTSE Mid 250 index (excluding investment trusts) as at the date of grant, measured over a single three-year period from grant. None of the award vests for performance below the top 45% of companies. For TSR performance at the 45th Percentile, 40% of the options become exercisable and the option is fully exercisable only if the Company's performance is in the top 25% of companies in the comparator group. Options are exercisable on a pro rata sliding scale basis between these two points. Further, no element of the option is exercisable unless the Company's normalised earnings per share growth over the relevant period exceeds 5% per annum over RPI. There is no opportunity for retesting under this part of the Plan.

Under the LTIP, the executive directors referred to above will be required to invest one half of their post-tax cash bonus in buying shares in the Company. The investment will be matched by the grant of matching awards provided in normal circumstances that the executive remains employed over the three-year performance period and certain performance targets are achieved. For the Chief Executive, this matching award is over shares with a value of up to four times the pre-tax value of the bonus invested in shares. For the other executive directors, the matching award is over shares with a value of up to two and a half times the pre-tax value of the bonus invested. Matching awards will normally only vest on the third anniversary of its grant to the extent that the participant remains in the Company's employment and has retained the shares purchased by him. As with the "super" options referred to above, initial awards will be granted on the basis of a performance target linked to the Company's TSR compared with other companies in the FTSE Mid 250 Index (excluding investment trusts), measured over a three-year period. None of the award will vest for performance below the top 45% of companies and maximum awards only fully vest if the Company's performance is in the top 10% of companies. Further, none of the award will vest if the Company's normalised earnings per share growth does not exceed the growth in RPI by an average of at least 5% per annum over the three-year period. There will be no opportunity for retesting the performance of the Company under this scheme. The Committee intends to use the same performance criteria for grants in the foreseeable future, unless best practice dictates that alternative targets should be considered.

The Committee considers that the FTSE Mid 250 Index is the most appropriate benchmark for both the "super" options granted under the 2002 Plan and the LTIP as the company is a constituent of the index. A comparator group of similar companies was considered inappropriate as there are very few companies with a similar business profile listed on the UK Stock Exchange. The Committee considers that the performance necessary for executives to receive the full benefit under this part of the 2002 Plan and the LTIP was sufficiently exacting to merit such awards. The Committee intends to use the same performance criteria for grants under both plans in the foreseeable future but continues to keep the appropriateness of such criteria under review. A chart showing the Company's Total Shareholder Return compared to the FTSE Mid 250 Index for the five years ended 31st December 2002 is shown below.

The Company also operates a savings-related share option scheme, which provides a long-term savings opportunity for all of the Group's employees, as well as encouraging them to participate in the success of the Company. Participation is open to all permanent employees who are able to make regular monthly savings and are exercisable in normal circumstances after three or five years at a price which is fixed at a discount of 20% from the average of the mid-market prices for the five business days immediately preceding the date on which invitations are made by the Committee.

Company policy on contracts of service

It is the Committee's policy only to offer contracts terminable on no more than twelve months' notice to executive directors. All executive directors who served during the year have contracts of employment terminable on one year's notice, except Justin Jewitt and David Lyon, whose contracts were issued in 1997 and 1998 respectively, provide for two years' notice from the Company in circumstances of a change of control. The Committee does not intend to offer contracts with such termination provisions to new directors and intends, when offering contracts of employment to newly appointed executive directors, to have regard to the broad principles outlined in the ABI and NAPF's joint statement on Best Practice on Executive Contracts and Severance.

Non-executive directors do not hold contracts of employment but are offered letters of appointment for a fixed period of three years, renewable annually thereafter by agreement. The Chairman's letter of appointment, fuller details of which are outlined below, provides for payment of 25% of his annual fee in the event of early termination of his appointment. Non-executive directors are not entitled to any compensation for the early termination of their appointment and no non-executive director is entitled to any employment-related benefits. Non-executive directors are not entitled to participate in any of the Group's long-term incentive arrangements, nor is their remuneration pensionable.

Company policy on the pensions of executive directors

Executive directors are able to join the Company's Retirement Benefits Scheme ("the Scheme"), a funded, Inland Revenue approved, final salary occupational pension scheme. Executive directors are entitled to a pension based on final salary (excluding bonuses) and length of pensionable service. The Company has agreed to provide benefits to directors based on their actual basic salary, even where this exceeds the Inland Revenue Earnings "cap", subject to their making members' contributions to the Scheme on the same basis. The Company has also established an unapproved scheme to provide additional death-in-service benefits to these directors in line with their actual basic salaries.

After having taken advice from the Scheme's actuary, the Company in 2001 agreed to improve the benefits available under the Scheme to those executive directors who were members at that time. Accordingly, the normal retirement age of directors including David Lyon and Stephen Page was reduced from 65 to 60 and the rate of accrual in respect of those directors was increased from 60th to 50th. The Board also agreed to backdate the provision of these benefits to the date of appointment to the Board of each director.

The Board has determined that a decision whether to improve the pension benefits made available to executive directors will be made on a case-by-case basis and in 2002 agreed to provide similar benefits to William Holmes, who joined the Scheme on becoming an executive director in October 2001. It has also agreed to provide pension benefits from the Scheme on this basis to Stephen Booty, who became a director in June 2002 and to pay him a cash sum to enhance these benefits to an accrual rate of 30th.

Prior to the establishment of the Company's current policy on membership of the scheme, the Company agreed to contribute to a personal pension plan for Justin Jewitt, which it continues to do.

Directors' Service Contracts

Justin Jewitt holds office by virtue of a contract of employment with the Company dated 20th March 1997. The contract is terminable on twelve months' notice from the Company, except in the case of a change of control, where twenty-four months' notice is required if notice is given within one year of such change of control. His contract contains a "pay in lieu of notice" clause, whereby the Company may terminate his employment without notice, provided it pays to him an amount equating to his salary and employer's pension contributions for the unexpired period of notice due under the contract. In addition, at the Board's discretion, he may be entitled to retain any vested share options held under the Group's Share Option Schemes for a period of up to twelve months from termination. He may also be entitled to exercise unvested share options early in certain specified circumstances subject to the Committee taking account of the performance of the Company and the length of time elapsed since the grant date. Further, depending on the time of year at which his employment is terminated, he may be entitled to any bonus earned by him (but not yet paid) under the Group's bonus scheme.

David Lyon holds office by virtue of a contract of employment with the Company dated 30th April 1998. The contract is terminable on twelve months' notice from the Company, except in the case of a change of control, where twenty-four months' notice is required if notice is given within one year of such change of control. His contract contains a "pay in lieu of notice" clause, whereby the Company may terminate his employment without notice provided it pays to him an amount equating to his salary for the unexpired period of notice and credits him with an additional period of pensionable service equating to the same period. In addition, at the Board's discretion, he may be entitled to retain any vested share options held under the Group's Share Option Schemes for a period of up to twelve months from termination. He may also be entitled to exercise unvested share options early in certain specified circumstances subject to the Committee taking account of the performance of the Company and the length of time elapsed since the grant date. Further, depending on the time of year at which his employment is terminated, he may be entitled to any bonus earned by him (but not yet paid) under the Group's bonus scheme.

Stephen Page holds office by virtue of a contract of employment with the Company dated 18th July 2001. The contract is terminable on twelve months' notice from the Company. His contract contains a "pay in lieu of notice" clause, whereby the Company may terminate his employment without notice provided it pays to him an amount equating to his salary for the unexpired period of notice and credits him with an additional period of pensionable service equating to the same period. In addition, at the Board's discretion, he may be entitled to retain any share options held under the Group's Share Option Schemes for a period of up to twelve months from termination. He may also be entitled to exercise unvested share options early in certain specified circumstances subject to the Committee taking account of the performance of the Company and the length of time elapsed since the grant date. Further, depending on the time of year at which his employment is terminated, he may be entitled to any bonus earned by him (but not yet paid) under the Group's bonus scheme.

Stephen Booty holds office by virtue of a contract of employment with the Company dated 1st February 2001. The contract is terminable on twelve months' notice from the Company. His contract contains a "pay in lieu of notice" clause, whereby the Company may terminate his employment without notice provided it pays to him an amount equating to his salary and benefits for the unexpired period of notice and credits him with an additional period of pensionable service. In addition, at the Board's discretion, he may be entitled to retain any share options held under the Group's Share Option Schemes for a period of up to twelve months from termination and, depending on the time of year at which his employment is terminated. He may also be entitled to exercise unvested share options early in certain specified circumstances subject to the Committee taking account of the performance of the Company and the length of time elapsed since the grant date. Further, depending on the time of year at which his employment is terminated, he may be entitled to any bonus earned by him (but not yet paid) under the Group's bonus scheme.

William Holmes holds office by virtue of a contract of employment with the Company dated 1st October 2001. The contract is terminable on twelve months' notice from the Company. His contract contains a "pay in lieu of notice" clause, whereby the Company may terminate his employment without notice provided it pays to him an amount equating to his salary and benefits for the unexpired period of notice and credits him with an additional period of pensionable service equating to the same period. In addition, at the Board's discretion, he may be entitled to retain any share options held under the Group's Share Option Schemes for a period of up to twelve months from termination. He may also be entitled to exercise unvested share options early in certain specified circumstances subject to the Committee taking account of the performance of the Company and the length of time elapsed since the grant date. Further, and, depending on the time of year at which his employment is terminated, he may be entitled to any bonus earned by him (but not yet paid) under the Group's bonus scheme.

Antony Beevor holds office by virtue of a letter of appointment dated 7th December 2001. His appointment is for an initial term of three years from 1st January 2002, extendable annually thereafter, subject to mutual agreement. In the event that his appointment is terminated by the Company before the expiry of the letter of appointment, a sum equivalent to 25% of his annual fee is payable.

Robert Nicholls holds office by virtue of a letter of appointment dated 14th May 1997. His appointment was for an initial term of three years from 1st September 1997 and was extended for a further three years in September 2000. His letter of appointment does not provide for any compensation to be payable in the event of early termination of his office.

David Howell holds office by virtue of a letter of appointment dated 26th August 1999. His appointment was for an initial term of three years from 31st August 1999 and has been extended for a further three years. His letter of appointment does not provide for any compensation to be payable in the event of early termination of his office.

Ingrid Alexander holds office by virtue of a letter of appointment dated 25th July 2001. Her appointment is for an initial term of three years from 13th August 2001 and does not provide for any compensation to be paid in the event of early termination of her office.

Timothy Harris holds office by virtue of a letter of appointment dated 6th December 2001. His appointment is for an initial term of three years from 1st January 2002 and does not provide for any compensation to be paid in the event of early termination of his office.

Directors' emoluments*

	Basic salary and fees 2002 £000	Performance related bonuses 2002 £000	Taxable benefits 2002 £000	Compensation for loss of office 2002 £000	Total emoluments excluding pensions 2002 £000	Total emoluments excluding pensions 2001 £000
I C Alexander	27	–	–	–	27	10
A R Beevor	78	–	–	–	78	26
S M Booty	86	28	8	–	122	–
R I Burns	133	68	15	158	374	–
T C Harris	27	–	–	–	27	–
D G Heywood	8	–	–	–	8	111
W F Holmes	129	53	14	–	196	137
M D R Horgan	28	7	3	–	38	251
D Howell	35	–	–	–	35	31
J A S Jewitt	250	94	17	–	361	491
D O Lyon	160	71	12	–	243	293
R M Nicholls	35	–	–	–	35	31
S R Page	160	24	16	–	200	271
A Parker	–	–	–	–	–	6
Total 2002	1,156	345	85	158	1,744	–
Total 2001	931	674	53	–	–	1,658

Benefits receivable consists primarily of car allowance, car fuel and healthcare insurance.

Included in compensation for loss of office for Robert Burns was £1,125 of redundancy payment.
He was further paid an amount of £1,000, which represents consultancy payments for the month of November and December.

Subject to the discretion of the Remuneration Committee, Robert Burns is allowed to exercise all share options he currently holds in the period up to 31st October 2003.

David Heywood was paid a total of £7,500 consultancy fees from 1st January 2002 until 31st May 2002.

Anne Parker retired as a director on 31st March 2001. William Holmes was appointed as an executive director on 1st October 2001, having previously been a non-executive director. David Heywood retired as a director on 31st December 2001. Stephen Page and Ingrid Alexander were appointed on 2nd March 2001 and 13th August 2001 respectively. Michael Horgan resigned as a director on 4th March 2002 but continues as a full-time employee of the Group. Robert Burns and Timothy Harris were appointed as directors on 1st January 2002. Stephen Booty was appointed as a director on 19th June 2002. Robert Burns resigned as a director on 30th October 2002.

The figures above represent emoluments earned as directors during the relevant financial year. All are paid in the year that they are earned, with the exception of bonuses, which are paid in the year following that in which they were earned.

Directors' pensions*

Defined benefit scheme

	Accrued pension per annum at 31st December 2002 £000	Increase in accrued pension per annum during 2002 £000	Increase in accrued pension per annum during 2002 excluding price inflation £000	Transfer value of accrued pension at 31st December 2002 £000	Transfer value of accrued pension at 31st December 2001 £000	Transfer value of the increase excluding price inflation less director's contribution £000
S M Booty (appointed 19th June 2002)	3	2	2	23	12	9
R I Burns (resigned 30th October 2002)	6	2	2	44	31	14
W F Holmes	3	3	3	23	6	12
M D R Horgan (resigned 4th March 2002)	56	1	1	701	703	4
D O Lyon	37	3	3	179	226	6
S R Page	7	3	3	31	22	7

The transfer value has been calculated on the basis of actuarial advice in accordance with the Actuarial Guidance Note GN11.
The above figures exclude any benefits derived from directors' additional voluntary contributions.

* Indicates section has been audited.

Remuneration Report continued

Defined contribution scheme*

Employer contributions of £106,000 were paid during the year to a personal pension plan for Justin Jewitt.

Employer contributions of £53,333 were paid during the year as a cash sum to Stephen Booty.

Directors' interests*

The beneficial and family interests of directors in the share capital of the Company according to the register of directors' interests maintained by the Company under Section 325 of the Companies Act 1985 were:

	Ordinary Shares		Share Options							
			Company Plan 1996		Employee Scheme 1996		Share Option Plan 2002		SAYE Schemes	
	31.12.02	31.12.01	31.12.02	31.12.01	31.12.02	31.12.01	31.12.02	31.12.01	31.12.02	31.12.01
I C Alexander	–	–	–	–	–	–	–	–	–	–
A R Beevor	5,000	5,000	–	–	–	–	–	–	–	–
S M Booty	–	–[4]	5,514	–[4]	23,897	–[4]	112,941	–[4]	2,088	–[4]
R I Burns	–[5]	–[4]	5,882[5]	5,882[4]	47,843[5]	47,843[4]	–[5]	–[4]	2,088[5]	–[4]
T C Harris	2,546	2,546	–	–	–	–	–	–	–	–
D G Heywood	–	411,235[5]	–	–[5]	–	–[5]	–	–[5]	–	–[5]
W F Holmes	4,000	4,000	5,882	5,882	43,137	43,137	58,823	–	3,638	–
M D R Horgan	–[5]	–	5,529[5]	5,529	163,602[5]	163,602	–[5]	–	1,336[5]	2,606
D Howell	4,000	4,000	–	–	–	–	–	–	–	–
J A S Jewitt	270,770	170,770	7,058	7,058	67,883	289,283	–	–	3,773	3,773
D O Lyon	35,750	35,750	–	–	54,163	54,163	–	–	2,166	2,166
R M Nicholls	–	–	–	–	–	–	–	–	–	–
S R Page	8,222	8,222	6,349	6,349	46,561	46,561	150,588	–	2,166	2,166

Notes:

1. None of the directors has any non-beneficial interest in the Company's share capital.
2. No director was materially interested in any contract of significance (apart from contracts of service or for services) with any Group company during or at the end of the financial year.
3. There have been no changes in the directors' interest in the share capital of the Company between 31st December 2002 and the date of this report.
4. At date of appointment.
5. At date of resignation.

* Indicates section has been audited.

Details of share options held by the directors during the year were:

	Scheme (see below)	At 1st January 2002	Granted	Exercised	Lapsed	At 31st December 2002	Exercise price	Date from which exercisable
S M Booty	1	–	23,897	–	–	23,897	544p	Apr '05
	2	–	5,514	–	–	5,514	544p	Apr '05
	3	–	2,088	–	–	2,088	454.8p	Jun '05
	4	–	112,941	–	–	112,941	212.5p	Oct '05
R I Burns	1	47,843	–	–	–	47,843	510p	Oct '04
	2	5,882	–	–	–	5,882	510p	Oct '04
	3	–	2,088	–	–	2,088	454.8p	Jun '05
W F Holmes	1	43,137	–	–	–	43,137	510p	Oct '04
	2	5,882	–	–	–	5,882	510p	Oct '04
	3	–	3,638	–	–	3,638	454.8p	Jun '05
	4	–	58,823	–	–	58,823	212.5p	Oct '05
M D R Horgan	1	72,200	–	–	–	72,200	115p	Nov '99
	1	42,283	–	–	–	42,283	236.5p	Apr '01
	1	12,132	–	–	–	12,132	407.5p	Apr '02
	1	30,294	–	–	–	30,294	425p	May '03
	1	6,693	–	–	–	6,693	542.5p	Mar '04
	2	5,529	–	–	–	5,529	542.5p	Mar '04
	3	1,270	–	–	(1,270)	–	305p	Feb '02
	3	470	–	–	–	470	412p	Dec '02
	3	866	–	–	–	866	447.2p	Jun '04
	4	–	59,813	–	–	59,813	267.5p	Jul '05
J A S Jewitt	1	221,400	–	(221,400)	–	–	115p	Nov '99
	1	45,883	–	–	–	45,883	425p	May '03
	1	22,000	–	–	–	22,000	542.5p	Mar '04
	2	7,058	–	–	–	7,058	425p	May '03
	3	3,773	–	–	–	3,773	447.2p	Jun '06
D O Lyon	1	11,647	–	–	–	11,647	407.5p	Apr '02
	1	30,294	–	–	–	30,294	425p	May '03
	1	12,222	–	–	–	12,222	542.5p	Mar '04
	3	2,166	–	–	–	2,166	447.2p	Jun '04
S R Page	1	46,561	–	–	–	46,561	472.5p	Nov '03
	2	6,349	–	–	–	6,349	472.5p	Nov '03
	3	2,166	–	–	–	2,166	447.2p	Jun '04
	4	–	150,588	–	–	150,588	212.5p	Oct '05

Schemes:

1. Employee Share Option Scheme 1996 Options; performance target is RPI plus 5% per annum over 3 years.
2. Company Share Option Plan 1996 Options; performance target is RPI plus 5% per annum over 3 years.
3. SAYE Scheme Options.
4. Share Option Plan 2002; see policy section for details of performance conditions.

Notes:

1. There is no cost to the employee for the receipt of options under the Employee Share Option Scheme 1996, Company Share Option Plan 1996 or the Share Option Plan 2002. Deductions from earnings are made in respect of SAYE options.
2. Employee Share Option Scheme 1996, Company Share Option Plan 1996 and Share Option Plan 2002 option prices are fixed at the mid-market price on the business day preceding the date of grant.
3. SAYE Scheme options are fixed at a discount of 20% from the average of the mid-market prices for the five business days immediately before the date of invitation.
4. The mid-market price at 31st December 2002 was 216 pence and the range during the year was 622.5 pence to 175 pence.
5. During the year, Justin Jewitt exercised 221,400 options granted under the Employee Share Option Scheme; the market price of the shares at the time of exercise was 595 pence per share. The aggregate gain made was £1,062,720. He retained a total of 100,000 shares after such exercise. Aggregate gains made by directors on the exercise of share options in 2001 were £431,145.
6. During the year, Michael Horgan's 1,270 options held under the SAYE Scheme lapsed.
7. No grants were made during the year under the Nestor Healthcare Group Long Term Incentive Plan 2002.

On behalf of the Board

Robert Nicholls, CBE
Chairman, Remuneration Committee
3rd March 2003

Corporate Governance

The Company complied throughout the year with the Code provisions set out in Section 1 of the Combined Code published by the Committee on Corporate Governance in June 1998 ("the Code") except where indicated in this statement.

The manner in which the Group applies the principles of good governance contained in the Code is described in the appropriate parts of this annual report. Thus the application by the Company of the Code's principles to remuneration matters at pages 31 and 37 should be read in conjunction with the statement below.

During the year, the Company has maintained a Board of directors which leads and controls the Company by holding at least ten meetings a year at which its current performance is examined and directions are given to operating executives. Regular reports on monthly performance and other ad hoc matters of importance to the Company ensure that the Board is supplied in a timely manner with the information necessary to make an informed judgement. In addition, the Board holds regular meetings to discuss and devise the Company's medium- and long-term strategic focus and holds additional meetings as and when necessary to discuss other issues, such as potential acquisitions.

In accordance with the provisions of its Articles of Association and with the Code, each director is subject to re-election by the Company's shareholders at the Annual General Meeting immediately following appointment and at least every three years thereafter.

The Board has a Schedule of Matters specifically reserved to it for decision and has approved the written terms of reference for the various committees to which it has delegated its authority in certain matters. The Schedule makes it clear that all directors have access to the advice and services of the Company Secretary and establishes a procedure for all directors to take independent advice, if necessary, at the Company's expense.

During the year, the Board was led by Antony Beevor, the Company's non-executive Chairman, who was appointed on 1st January 2002. The Board recognises that, as he formerly held the position as the head of the Corporate Finance division of Société Générale, the Group's former financial advisor, Mr Beevor does not meet all of the criteria of "independence" laid down in the corporate governance guidelines of some major institutional investors. However, after careful consideration, it has concluded that Mr Beevor is independent for the purposes of the Code, since his relationship with the Company's former financial advisor does not interfere in any way with his ability to exercise independent, experienced and informed judgement as the non-executive Chairman of the Company.

The day-to-day running of the Company's business is delegated to an executive team led by Justin Jewitt, the Group Chief Executive and which includes David Lyon, Group Finance Director, Stephen Booty, Managing Director of the Company's Healthcare Personnel Division, who was appointed as a director on 19th June 2002 and Stephen Page, Managing Director of the Company's Healthcare Services Division. During the year, Robert Burns, who was previously the Managing Director of the Healthcall Group and who joined the executive team on its acquisition also served as a director and member of the executive team until his resignation on 31st October 2002. Dr William Holmes also served as an executive director, responsible for the Group's Clinical Governance. Other senior managers, including the Group Company Secretary, Group Financial Controller, Chief Information Officer and Director of Human Resources, form part of the executive team.

During the year, four further non-executive directors with extensive business, finance, health and social care backgrounds provided the Board with a breadth of experience and with independent judgement. Robert Nicholls, CBE is the Company's independent senior non-executive director and also chairs the Board's Remuneration Committee.

The Board actively encourages all directors to deepen their knowledge of their role and responsibilities and, during the year, all newly appointed Board members received the opportunity to receive formal training on courses specifically designed to help them to do so. In addition, all of the non-executive directors spent a number of days meeting members of the Company's executive team and most visited several of the Group's operating divisions. Formal training is available to all members of the Board, if they deem it necessary or desirable and some members of the Board attended formal training courses relating to their position as directors during the year.

The Board operates a number of committees, consisting wholly or mainly of non-executive directors to which it has delegated certain specific responsibilities and each of which have formally adopted terms of reference. These comprise Nomination, Audit and Remuneration Committees. The Nomination Committee, which makes recommendations to the Board on the appointment of directors, was during the year chaired by Antony Beevor. Its composition is not fixed but comprises those directors who, in the Board's opinion, are best qualified to judge the suitability of candidates for the particular position to be filled (depending, primarily on whether the position to be filled is an executive or non-executive post). However, the Committee always comprises a majority of independent non-executive directors, including the Chairman of the Company and in arriving at its recommendations, it draws on the advice of the Group's Director of Human Resources and such professional advisors as it considers necessary.

The Audit Committee is chaired by David Howell, who is a chartered accountant, Chief Financial Officer and an executive director of lastminute.com plc. It comprises only non-executive directors and meets regularly to review the preliminary and interim results before they are presented to the Board, to receive reports from the Company's internal and external auditors and to make recommendations to the Board on accounting policies. Its primary duties include the monitoring, on behalf of the Board, of compliance with and the effectiveness of the Company's accounting and internal control systems. The Committee's duties also include monitoring the scope and results of the Company's annual audit and the independence and objectivity of its auditors.

The Company has outsourced its internal audit function to a leading firm of chartered accountants, which reports regularly to the Audit Committee on projects undertaken in accordance with the audit plan agreed with the Committee at the beginning of every financial year. Copies of all reports issued by the internal auditors are circulated to all members of the Audit Committee as they are published.

During the year, only independent non-executive directors served on the Remuneration Committee, which determines the Group's overall remuneration strategy and the remuneration packages of the executive directors and other senior executives, after having consulted with the Chief Executive and having received professional advice from remuneration consultants and the Group's Director of Human Resources. The Committee is also responsible for approving the grant and exercise of executive share-based incentive arrangements. In determining remuneration policy, the Committee is free to obtain such professional advice as it sees fit, and regularly monitors both the policies of comparator companies and current market practice, in order to ensure that the packages provided are sufficient to attract and retain executive directors of the necessary quality. During the year, the Committee was chaired by Robert Nicholls, CBE.

The remuneration of non-executive directors, including the Chairman, is a matter for the Company's Board and the Committee's terms of reference make it clear that the framework for the remuneration of the Company's senior executives must be agreed by the Board as a whole.

Short biographies of each of the directors, including their membership of the Board's committees outlined above, may be found on pages 26 and 27.

The Board, on the Company's behalf, recognises the need to maintain an active dialogue with its shareholders. The Chief Executive and Group Finance Director meet regularly with institutional investors and analysts to discuss the Company's performance and all shareholders have access to the senior non-executive director, who is available to discuss any concerns which investors may have in relation to the running of the Company. They also have access to the Chairman of the Company if they so require. The Board encourages shareholders to attend the AGM and is always willing to answer questions, either in the meeting itself or, more informally, afterwards.

Going Concern

The directors confirm that, after reviewing the financial position and cash flows of the Group, they have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

Internal Controls

As required by the UK Listing Authority, the Company has complied throughout the year with the provisions of the Combined Code relating to internal controls, having implemented the procedures necessary to comply with the guidance issued in September 1999 (the Turnbull Committee Report) and to report in line with that guidance.

The Board is responsible for the Group's system of internal control and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

In 1999, the directors adopted a revised comprehensive process for managing, evaluating and reporting on significant risks faced by the Group. The revised (and further refined and extended) process has been in place for the whole of 2002 and up to the date of approval of the Annual Report & Accounts.

The key elements of the system operated by the Group to identify, evaluate and manage significant risks include the following:

- The Group's management operates a formal process for identifying, managing and reporting on operational, clinical and financial risks faced by each of the Group's businesses, whereby each of the risks identified is reviewed in detail by the executive directors on a quarterly basis and updated monthly as necessary. These reports form the basis of risk registers that are provided to the Audit Committee. Senior management team review meetings are held on at least a monthly basis at which the Group's business managers and executive team members report on the progress of the companies or discipline for which they are responsible and share best practice. The formal process for identifying discipline-specific risks across the Group's operations encompasses financial, IT, human resources, legal, property and clinical risks. A mechanism also exists to extend the Group's formal risk management processes to any new business acquired or begun by the Company immediately upon acquisition or start-up. In this way, the Board is able to confirm that the necessary process has been operated by the Group for the whole of 2002.
- At each regular meeting, the Audit Committee of the Board reviews a register compiled by the managing director of each of the Group's businesses and by each member of the Group's senior management team, summarising the significant risks faced by the businesses or the Group as a whole, the likelihood of those risks occurring and the steps being taken to minimise or otherwise manage those risks.

- During the year, the Board has also adopted new policies for managing the business risks it has identified as having the potential to impact significantly on the Group's performance. For example, in 2002, it adopted a comprehensively revised policy on the clinical standards observed across the Group's businesses.

As required by the Turnbull Guidance, the Board has carried out an annual assessment of the effectiveness of the system of internal controls. The processes applied by the Board include:

- At the end of the year, the managing directors of each of the Group's businesses, including the Group's corporate resource, are required to complete and sign a register of the key financial and operational risks facing the business for which they are responsible and to confirm that they have complied throughout the year with the Company's policies and procedures on risk management. From these registers, a report identifying the key risks faced by the Group is compiled and signed by the Chief Executive, Group Finance Director and Group Company Secretary, who are also required to confirm their compliance with such procedures and policies. This report and the annual compliance statements of each of the managing directors, endorsed by the Divisional managing directors, are reviewed by the Board before the Annual Report & Accounts are approved.
- The Group has an independent Internal Audit function which reviews the overall effectiveness of the risk management process for the key risks and reports independently to the Audit Committee.
- At each meeting the Audit Committee reviews reports of the senior management team and internal and external auditors, on any issues identified as having a potentially substantial impact on the results of the Group, or areas of control weakness.
- The Audit Committee reviews the effectiveness of the Group's system of managing financial risk and refers any risks it considers significant to the Board for its consideration.
- At least twice a year, the Audit Committee reviews the work plans and results of each of the internal and external auditors.
- The Audit Committee Chairman reports the outcome of all Audit Committee meetings to the Board, which also receives minutes of all such meetings.

Auditors' Report

Report to the shareholders of Nestor Healthcare Group plc

Independent auditors' report to the members of Nestor Healthcare Group plc

We have audited the financial statements which comprise the profit and loss account, the balance sheets, the cash flow statement, the statement of total recognised gains and losses and the related notes which have been prepared under the historical cost convention and the accounting policies set out in the statement of accounting policies. We have also audited the disclosures required by Part 3 of Schedule 7A to the Companies Act 1985 contained in the directors' remuneration report ('the auditable part').

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report, the directors' remuneration report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements and the auditable part of the directors' remuneration report in accordance with relevant legal and regulatory requirements and United Kingdom auditing standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the auditable part of the directors' remuneration report have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the directors' report, the unaudited part of the directors' remuneration report, the chairman's statement, the operating and financial review and the corporate governance statement.

We review whether the corporate governance statement reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the Company's or Group's corporate governance procedures or its risk and control procedures.

Basis of audit opinion

We conducted our audit in accordance with auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the auditable part of the directors' remuneration report. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the auditable part of the directors' remuneration report are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and the Group at 31st December 2002 and of the profit and cash flows of the Group for the year then ended, have been properly prepared in accordance with the Companies Act 1985 and those parts of the directors' remuneration report required by Part 3 of Schedule 7A to the Companies Act 1985 have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
1 Embankment Place
London WC2N 6RH
3rd March 2003

Consolidated Profit and Loss Account

for the year ended 31st December 2002

	Notes	2002 Before goodwill amortisation and exceptional items £000	2002 Goodwill amortisation and exceptional items £000	2002 Total £000	2001 Before goodwill amortisation and exceptional items £000	2001 Goodwill amortisation and exceptional items £000	2001 Total £000
Turnover							
Existing		480,539	–	480,539	400,965	–	400,965
Acquisitions		2,156	–	2,156	–	–	–
Turnover	2,3	482,695	–	482,695	400,965	–	400,965
Cost of sales		(361,574)	–	(361,574)	(312,778)	–	(312,778)
Gross profit		121,121	–	121,121	88,187	–	88,187
Administrative expenses		(83,821)	(7,694)	(91,515)	(62,727)	(3,831)	(66,558)
Exceptional items	5	–	(18,100)	(18,100)	–	(4,574)	(4,574)
Continuing operations							
Existing	3	36,822	(25,725)	11,097	25,460	(8,405)	17,055
Acquisitions	3	478	(69)	409	–	–	–
Operating profit	3,4	37,300	(25,794)	11,506	25,460	(8,405)	17,055
Exceptional gain on disposal of subsidiary undertaking	5	–	800	800	–	–	–
Profit on ordinary activities before interest		37,300	(24,994)	12,306	25,460	(8,405)	17,055
Net interest payable	8	(4,169)	–	(4,169)	(1,544)	–	(1,544)
Profit on ordinary activities before taxation goodwill amortisation and exceptional items		33,131	–	33,131	23,916	–	23,916
Goodwill amortisation		–	(7,694)	(7,694)	–	(3,831)	(3,831)
Exceptional items		–	(17,300)	(17,300)	–	(4,574)	(4,574)
Profit on ordinary activities before taxation		33,131	(24,994)	8,137	23,916	(8,405)	15,511
Tax on profit on ordinary activities	9	(7,027)	846	(6,181)	(7,043)	1,030	(6,013)
Profit on ordinary activities after taxation		26,104	(24,148)	1,956	16,873	(7,375)	9,498
Equity minority interests		(48)	–	(48)	(19)	–	(19)
Profit attributable to shareholders		26,056	(24,148)	1,908	16,854	(7,375)	9,479
Equity dividends	11	(8,413)	–	(8,413)	(6,996)	–	(6,996)
Retained (loss)/profit for the year	24	17,643	(24,148)	(6,505)	9,858	(7,375)	2,483
Earnings per share							
Basic	12	29.83p	(27.65p)	2.18p	20.54p	(8.99p)	11.55p
Diluted	12	29.78p	(27.60p)	2.18p	20.34p	(8.90p)	11.44p
Dividends per share	11	9.62p	–	9.62p	8.02p	–	8.02p

The historical cost profit on ordinary activities before taxation and the historical cost profit retained for the year after taxation and dividends are the same as those reported above.

Consolidated Statement of Total Recognised Gains and Losses

for the year ended 31st December 2002

	2002 £000	2001 £000
Profit attributable to shareholders	**1,908**	9,479
Total recognised gains and losses relating to the year	**1,908**	9,479

Reconciliation of Movements in Consolidated Equity Shareholders' Funds

for the year ended 31st December 2002

	Notes	2002 £000	2001 £000
Profit attributable to shareholders		**1,908**	9,479
Dividends	11	**(8,413)**	(6,996)
Shares issued during the year		**763**	38,969
Cost of share issue		**–**	(684)
Net (decrease)/increase in equity shareholders' funds		**(5,742)**	40,768
Opening equity shareholders' funds		**93,277**	52,509
Closing equity shareholders' funds		**87,535**	93,277

Balance Sheets

as at 31st December 2002

		Group		Company	
	Notes	2002 £000	2001 £000	2002 £000	2001 £000
Fixed assets					
Intangible assets	13	139,243	152,507	–	–
Tangible fixed assets	14	12,741	13,512	751	720
Investments	16	1	28	33,250	33,451
		151,985	166,047	34,001	34,171
Current assets					
Debtors	17	57,530	66,024	434,401	186,609
Cash at bank and in hand	20	9,196	4,341	119	6
		66,726	70,365	434,520	186,615
Creditors – amounts falling due within one year	18	(62,162)	(81,175)	(54,405)	(56,315)
Net current assets/(liabilities)		4,564	(10,810)	380,115	130,300
Total assets less current liabilities		156,549	155,237	414,116	164,471
Creditors – amounts falling due after more than one year	19	(60,051)	(55,401)	(60,000)	(55,005)
Provisions for liabilities and charges	22	(8,642)	(6,246)	(1,140)	(1,287)
Net assets		87,856	93,590	352,976	108,179
Capital and reserves					
Called up share capital	23	8,747	8,708	8,747	8,708
Share premium account	24	43,022	42,298	43,022	42,298
Other reserves	24	864	864	25,750	25,750
Profit and loss account	24	34,902	41,407	275,457	31,423
Equity shareholders' funds		87,535	93,277	352,976	108,179
Equity minority interests		321	313	–	–
		87,856	93,590	352,976	108,179

The financial statements on pages 42 to 66 were approved by the Board on 3rd March 2003 and were signed on its behalf by

A R Beevor

D O Lyon

Consolidated Cash Flow Statement

for the year ended 31st December 2002

	2002 £000	2002 £000	2001 £000	2001 £000
Net cash inflow from operating activities before exceptional items (note 25)		54,144		24,648
Payments in respect of exceptional items		(2,300)		(2,246)
Returns on investments and servicing of finance				
Interest paid	(3,848)		(1,372)	
Interest received	50		493	
Interest element of finance leases	(98)		(85)	
Net cash outflow from returns on investments and servicing of finance		(3,896)		(964)
Taxation		(6,240)		(6,268)
Net cash inflow before investing activities and equity dividends paid		41,708		15,170
Capital expenditure and financial investment				
Purchase of tangible fixed assets (note 14)	(7,926)		(4,632)	
Sale of tangible fixed assets	1,183		109	
Net cash outflow from capital expenditure and financial investment		(6,743)		(4,523)
Acquisitions and disposals				
Purchase of businesses and subsidiary undertakings (note 16)	(13,263)		(125,328)	
Net cash acquired with businesses (note 16)	90		394	
Sale of business (note 5)	533		–	
Net cash outflow from acquisitions and disposals		(12,640)		(124,934)
Equity dividends paid (note 11)		(7,499)		(5,883)
Net cash inflow/(outflow) before financing		14,826		(120,170)
Financing				
Issue of ordinary share capital (note 23)	763		38,969	
Expenses of share issue	–		(684)	
Capital element of finance lease payments	(1,425)		(476)	
(Decrease)/increase in borrowing	(8,979)		70,155	
Net cash (outflow)/inflow from financing		(9,641)		107,964
Increase/(decrease) in cash		5,185		(12,206)

The notes to the Consolidated Cash Flow Statement are shown in note 25 to the financial statements.

The impact on cashflows of post acquisition trading of the businesses acquired during the year is not material.

Notes to the Financial Statements

for the year ended 31st December 2002

1 Accounting policies

The Group adopted FRS18, Accounting Policies, in the previous year although this did not require any change in accounting policies.

Basis of accounting

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost convention.

Basis of consolidation

The Group financial statements comprise a consolidation of the financial statements of the Company and all its subsidiary undertakings. The results of businesses acquired are included from the effective date of acquisition and businesses sold are included up to the date of disposal. The accounting reference date of the Company and all trading subsidiary undertakings is 31 December.

Goodwill and amortisation

Purchased goodwill, being the excess of the fair value of the purchase consideration over the fair value of the net assets of newly acquired undertakings, is capitalised on the balance sheet, and amortised over its useful economic life not exceeding 20 years. Prior to 1st January 1998, all purchased goodwill was written off to reserves on acquisition. Previously written off goodwill has not been reinstated and is charged to the profit and loss account on the disposal or termination of the related business.

Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less depreciation. Depreciation is calculated so as to write down the cost of tangible assets to their estimated residual value in equal instalments over their estimated useful lives. The range of estimated useful lives for each major asset category are:

Leasehold land and buildings	Term of the lease
Plant and equipment, fixtures and fittings	3 to 8 years

Fixed asset investments

Investments in subsidiary undertakings are held at original cost less any provision for impairment.

Deferred taxation

Deferred taxation is provided on the liability method where, in the opinion of the directors, it is probable that the liability will crystallise in the foreseeable future.

Pension costs

Pension costs are charged to the profit and loss account in such a way as to provide for the liabilities evenly over the average remaining working lives of the employees. The Group has adopted the transitional rules on pensions disclosure under FRS 17.

Leases

Where fixed assets are financed by leasing agreements which give rights approximately equivalent to ownership (finance lease), the assets are capitalised and depreciated accordingly. The corresponding lease commitments are treated as obligations to the lessor. All other lease payments are charged to the profit and loss account in the year to which they relate.

Share Schemes

The Group's Qualifying Employee Share Ownership Trust (QUEST) is a separately administered trust which is funded by a loan and a gift from the Group, and the assets of which comprise shares in the Company. Shares in the QUEST are shown at their estimated recoverable amount, being the option price of the shares payable by employees. The amounts contributed to the QUEST in excess of the option price are charged against reserves.

2 Turnover

Turnover represents the amount invoiced net of value added tax in respect of the provision of services delivered to customers during the year.

3 Segmental reporting

The UK was the origin and destination of all the Group's turnover in both 2002 and 2001.

	Turnover	
	2002 £000	2001 £000
Turnover by business activity		
Healthcare Personnel	**309,680**	308,821
Healthcare Services	**173,015**	92,144
Total	**482,695**	**400,965**

All turnover is derived from external customers.

3 Segmental reporting *continued*

	Total operating profit before goodwill amortisation and exceptional items		Total operating profit	
	2002 £000	2001 £000	2002 £000	2001 £000
Operating profit by business activity				
Healthcare Personnel	**22,919**	19,978	**20,869**	16,758
Healthcare Services	**14,381**	5,482	**(9,363)**	297
Total	**37,300**	25,460	**11,506**	17,055

Central costs have all been allocated across the business segments on the basis of activity.

Turnover, cost of sales, gross profit, administrative expenses and operating profit are analysed between existing and acquired operations as follows:

	Continuing existing 2002 £000	Continuing acquisitions 2002 £000	Total 2002 £000	Total 2001 £000
Turnover	**480,539**	**2,156**	**482,695**	400,965
Cost of sales	**(360,047)**	**(1,527)**	**(361,574)**	(312,778)
Gross profit	**120,492**	**629**	**121,121**	88,187
Administrative expenses – ongoing	**(91,295)**	**(220)**	**(91,515)**	(66,558)
– exceptional items	**(18,100)**	–	**(18,100)**	(4,574)
Operating profit	**11,097**	**409**	**11,506**	17,055

The contribution from acquisitions shown above and on the face of the profit and loss account reflects the contribution from Cornelle UK Medical Services Limited. The other businesses that were acquired during the year have been fully integrated into the Group's existing businesses. These businesses generated turnover of £1,746,000. However, because of the integration, it is not possible to separately identify operating profits of these businesses. Accordingly, the results of these acquired businesses have been included within existing operations.

	Net operating assets	
	2002 £000	2001 £000
Analysis of net operating assets/(liabilities) by business activity		
Healthcare Personnel	**81,405**	73,101
Healthcare Services	**95,800**	125,784
Central	**(12,697)**	(13,054)
Total continuing operations	**164,508**	185,831

	2002 £000	2001 £000
Net assets per consolidated balance sheet	**87,856**	93,590
Net debt	**59,761**	75,350
Goodwill written off to reserves	**16,891**	16,891
Total net operating assets, including goodwill	**164,508**	185,831

All operating assets were held in the United Kingdom in both 2002 and 2001.

Notes to the Financial Statements

for the year ended 31st December 2002

4 Operating profit

	2002 £000	2001 £000
Operating profit is stated after charging		
Depreciation	7,237	4,945
Amortisation of goodwill	7,694	3,831
Net loss on sale of tangible fixed assets	149	160
Auditors' remuneration – audit	435	361
Operating lease rentals:		
Land and buildings	4,167	4,186
Plant and machinery	150	452

Remuneration of the Company's auditors in respect of other services amounted to £680,000 (2001 – £1,574,000). This comprises £81,000 relating to fees for due diligence and other acquisition-related work, tax-related work of £511,000 and £88,000 of other fees.

Auditors' remuneration in respect of the Company's audit amounted to £126,000 (2001 – £46,000).

5 Exceptional items

Exceptional items within operating profit comprise:

	2002 £000	2001 £000
Restructuring and integration costs	3,100	3,674
Impairment of goodwill and fixed assets	15,000	900
	18,100	4,574

During the year, the decision was taken to restructure the Primary Care out-of-hours business by closing its head office and consolidating its call-handling function from 29 locations down to two national clinical response centres in England. Costs incurred in the year in respect of this project amounted to £3,100,000 and primarily comprise redundancy and other related costs. A tax credit of £846,000 arose on these restructuring costs.

In 2001, following the acquisition of Healthcall and the Goldsborough businesses, the decision was taken to restructure the acquired businesses and integrate them with the Group's existing businesses. The costs associated with the restructuring and the integration amounted to £3,674,000 and mainly comprised redundancy and other staff-related costs, property withdrawal costs and IT integration costs. A tax credit of £1,030,000 was booked in respect of these exceptional charges.

On 2nd July 2002, the DTI announced that it had awarded the MAP contract for the assessment of lung disease in coalminers to a third party. In the light of the loss of the contract, the Board reviewed the carrying value of goodwill associated with the acquisition of Healthcall and decided to write it down by £15,000,000.

A 51% share of Hertford Medical International Limited was acquired at the end of 2000. Its performance following acquisition was below expectations and a review of the carrying value of the Group's 51% interest was undertaken in 2001. Accordingly, it was determined that fixed assets had been impaired by £73,000 and goodwill by £827,000. Subsequently, the decision was taken to dispose of the Group's interest (see below).

The exceptional gain, after operating profit, on disposal of a subsidiary undertaking in 2002 of £800,000 comprises the gain on disposal of the Group's 51% share of Hertford Medical International Limited in August 2002. Cash consideration was £670,000 and estimated deferred consideration was £570,000. No tax credit has been recognised in respect of this exceptional gain. After deducting costs, the net cash inflow from the disposal was £533,000. The turnover and trading results of the subsidiary for the period to disposal were not material.

6 Employees

	2002 £000	2001 £000
Employee costs		
Wages and salaries	56,366	53,323
Social security costs	4,531	4,128
Other pension costs	2,649	1,883
	63,546	59,334

	2002	2001
Average number of persons employed		
Full-time	2,781	2,886
Part-time	2,738	2,974
	5,519	5,860
Employee numbers by business activity		
Healthcare Personnel	2,823	2,887
Healthcare Services	2,696	2,973
	5,519	5,860

7 Directors' emoluments

	2002 £000	2001 £000
Aggregate emoluments	1,744	1,658
Aggregate gains made on the exercise of share options	1,063	431
Company contributions to money purchase pension schemes	159	157
	2,966	2,246

The detailed numerical analysis of directors' remuneration is included in the tables in the Remuneration Report on pages 31 and 37 and forms part of these financial statements.

8 Net interest payable

	2002 £000	2001 £000
Unwinding of discount in provisions and related deferred tax asset (note 22)	(350)	(144)
Amortisation of issue costs of bank loans	(64)	(27)
Interest payable on bank loans and overdrafts	(3,237)	(1,099)
Interest payable on other loans	(470)	(682)
Interest payable on finance leases	(98)	(85)
Total interest and similar charges payable	(4,219)	(2,037)
Bank interest and other investment income receivable	50	493
Net interest payable	**(4,169)**	**(1,544)**

Notes to the Financial Statements

for the year ended 31st December 2002

9 Taxation

	2002 £000	2001 £000
UK Corporation Tax at 30.00% (2001 – 30.00%) on taxable profits for the year	7,114	6,296
Over provision in previous years	(871)	(182)
Deferred tax (note 22)	(62)	(101)
	6,181	6,013

The effective tax rate for the year is higher than the standard rate of corporation tax for the UK. The differences are explained below:

	2002 £000	2001 £000
Profit on ordinary activities at the standard rate of corporation tax at 30%	2,441	4,653
Items not deductible	132	132
Net goodwill amortisation not deductible	3,680	1,419
Deferred tax movements not recognised	679	(129)
Overseas losses not relievable	120	120
Over provision in previous years in respect of under-let properties	(871)	(182)
Tax charge for year	**6,181**	6,013

10 Profit for the year

The profit after tax for the year dealt with in the accounts of the Company amounts to £252,447,000 (2001: £9,714,000). As allowed by the provisions of Section 230 of the Companies Act 1985, the Company has not published its own profit and loss account.

11 Dividends

	2002 £000	2001 £000
Equity dividends paid		
Ordinary shares: 3.48p per share (2001 – 2.90p)	3,043	2,540
Equity dividends proposed		
Ordinary shares: 6.14p per share (2001 – 5.12p)	5,370	4,456
Total dividends: 9.62p per share (2001 – 8.02p)	**8,413**	6,996

Dividends waived by the Employee Share Ownership Trust are disclosed in note 16.

12 Earnings per share

Basic earnings per share are calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year.

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. The Group has only one category of dilutive potential ordinary shares: those share options granted to employees where the exercise price is less than the average market price of the Company's ordinary shares during the year.

Earnings per share before goodwill amortisation and exceptional items have been calculated to show the impact of goodwill amortisation and exceptional items as these can have a distorting effect on earnings and therefore warrant separate consideration.

Reconciliations of the earnings and weighted average number of shares used in the calculations are set out below.

	2002 Earnings £000	2002 Weighted average number of shares thousand	2002 EPS pence	2001 Earnings £000	2001 Weighted average number of shares thousand	2001 EPS pence
FRS 3 basis						
Basic earnings per share	1,908	87,337	2.18p	9,479	82,045	11.55p
Dilutive effect of options	–	155	–	–	835	(0.11p)
Diluted earnings per share	1,908	87,492	2.18p	9,479	82,880	11.44p
Adjusted to exclude goodwill amortisation and exceptional items						
Basic – FRS 3 basis	1,908	87,337	2.18p	9,479	82,045	11.55p
Exceptional items (adjusted for taxation)	16,454	–	18.84p	3,544	–	4.32p
Goodwill amortisation	7,694	–	8.81p	3,831	–	4.67p
Adjusted basic earnings per share	26,056	87,337	29.83p	16,854	82,045	20.54p
Diluted – FRS 3 basis	1,908	87,492	2.18p	9,479	82,880	11.44p
Exceptional items (adjusted for taxation)	16,454	–	18.81p	3,544	–	4.28p
Goodwill amortisation	7,694	–	8.79p	3,831	–	4.62p
Adjusted diluted earnings per share	26,056	87,492	29.78p	16,854	82,880	20.34p

13 Intangible assets

	Goodwill £000
Group	
Cost	
At 1st January 2002	159,010
Additions (note 16)	9,430
Disposals	(870)
Impairment (note 5)	(15,000)
At 31st December 2002	152,570
Aggregate amortisation	
At 1st January 2002	6,503
Charge for the year	7,694
Disposals	(870)
At 31st December 2002	13,327

13 Intangible assets continued

Net book value	
At 31st December 2002	139,243
At 31st December 2001	152,507

The goodwill arising on all acquisitions is being amortised on a straight-line basis over 20 years. This is the period over which the directors estimate that the value of the underlying businesses acquired in each case is expected to exceed the value of the underlying assets. The impairment in the year of £15,000,000 relates to Healthcall. As explained in note 5, the directors have reviewed the carrying value of the Group's interest in the shares of Healthcall. Accordingly it has been determined that goodwill has been impaired by £15,000,000.

14 Tangible fixed assets

	Leasehold land & buildings £000	Plant & equipment, fixtures & fittings £000	Total £000
Group			
Cost			
At 1st January 2002	80	24,758	24,838
Additions	–	7,926	7,926
On acquisition of businesses and subsidiary undertakings	–	15	15
Disposals	–	(5,905)	(5,905)
On disposal of business	–	(752)	(752)
At 31st December 2002	80	26,042	26,122
Depreciation			
At 1st January 2002	34	11,292	11,326
Disposals	–	(4,573)	(4,573)
Charge for the year	5	7,232	7,237
On disposal of business	–	(609)	(609)
At 31st December 2002	39	13,342	13,381
Net book value			
At 31st December 2002	41	12,700	12,741
At 31st December 2001	46	13,466	13,512

At 31st December 2002, the net book value of assets held under finance leases, capitalised and included in plant and equipment, fixtures and fittings amounts to £245,000 (2001: £2,036,000). The depreciation charge on these assets during the year amounted to £1,080,000 (2001: £463,000).

14 Tangible fixed assets continued

	Plant & equipment, fixtures & fittings £000
Company	
Cost	
At 1st January 2002	1,125
Additions	350
Disposals	(199)
At 31st December 2002	1,276
Depreciation	
At 1st January 2002	405
Disposals	(96)
Charge for the year	216
At 31st December 2002	525
Net book value	
At 31st December 2002	751
At 31st December 2001	720

15 Capital commitments

	2002 £000	2001 £000
Capital expenditure that has been contracted but not provided for	3,676	258

16 Fixed asset investments

	Investment in own shares £000
Group	
At 1st January 2002	28
Sale of shares	(27)
At 31st December 2002	1

16 Fixed asset investments continued

	Investment in own shares £000	Investment in subsidiaries £000	Total £000
Company			
At 1st January 2002	28	33,423	33,451
Disposal of subsidiary undertaking (note 5)	–	(174)	(174)
Sale of shares	(27)	–	(27)
At 31st December 2002	1	33,249	33,250

Investment in own shares relates to 1,645 shares held by the Group's Qualifying Employee Share Ownership Trust ('QUEST'). The Company established the QUEST to acquire new shares in the Company for the benefit of the employees and directors of the Group.

The shares held by the QUEST at 31st December 2002 have been included in the Group balance sheet, as investment in own shares, at a value of £1,000, which is the equivalent to the amounts receivable from employees on exercise of their options. The market value of the shares at 31st December 2002 was £4,000.

Dividends of less than £1,000 have been waived on shares held by the QUEST under the terms of the trust deed and the costs relating to the scheme are dealt with in the profit and loss account as they accrue.

Except where stated, the following subsidiary companies are wholly-owned including 100% of the voting rights, operate in the United Kingdom and are registered in England & Wales. All companies have been included in the consolidated results of the Group.

Principal undertakings

Undertaking	Business
Nestor Primecare Services Limited [1]	UK healthcare services and flexible staffing services in UK health and social care
Cleveland Healthcall Services Limited [2]	UK doctors' duty services
Care Monitoring 2000 Limited [2]	UK homecare remote monitoring

[1] The interest of Nestor Healthcare Group plc is held through intermediate holding companies.
[2] Nestor Healthcare Group plc has a 51% interest.

Related party transactions

Neither the Group nor the Company had any material transactions with related parties during the year. Details of transactions with directors are set out in the Remuneration Report on pages 31 to 37.

16 Fixed asset investments continued

Business acquisitions

The Group purchased two companies, Cornelle UK Medical Services Limited and Everycare (SE Anglia) Limited and nine businesses during the year for a total consideration of £8,512,000. In 2001, a number of provisional fair value adjustments were made to the book values of the assets and liabilities acquired with Healthcall. These fair value adjustments have now been finalised as shown below. All of these purchases have been accounted for as acquisitions.

The provisional fair value of assets and liabilities acquired in the year which equated to their book values and the goodwill arising are as follows:

	£000
Fixed assets	66
Current assets and liabilities	
Debtors and prepayments	900
Creditors and accruals	(508)
Cash	90
Net current assets	482
Net assets acquired	548
Purchase consideration	8,512
Costs of acquisition	440
Total cost	8,952
Goodwill arising on acquisitions made in the year	8,404
Hindsight adjustment to the fair values of net assets aquired with Healthcall in September 2001	2,361
Reduction arising on adjustment to consideration and costs on prior year acquisitions	(1,335)
Total goodwill arising in year (note 13)	9,430

The fair value adjustments relating to Healthcall comprise:

	£000
Provision for deficit on pension scheme	(3,723)
Deferred tax asset associated with pension provision	1,535
Other	(173)
	(2,361)

Cash flows in respect of purchase of businesses

	Total £000
Total cost	8,952
Deferred consideration	(125)
Accrued expenses	(158)
	8,669
Deferred consideration and accrued expenses settled in cash in relation to prior year acquisitions	4,594
Total cash expended on purchase of businesses	13,263
Net cash acquired	(90)
Net cash flows in respect of purchase of businesses	13,173

Notes to the Financial Statements

for the year ended 31st December 2002

17 Debtors

	Group		Company	
	2002 £000	2001 £000	2002 £000	2001 £000
Trade debtors	44,955	58,289	–	–
Amounts owed by Group companies	–	–	433,273	171,567
Dividends receivable from Group companies	–	–	–	14,481
Other debtors	2,991	1,828	838	133
Deferred tax	1,592	–	–	–
Prepayments and accrued income	7,992	5,907	290	428
	57,530	66,024	434,401	186,609

The Group has an overall deferred tax asset position arising from the recognition of a pension liability (see note22).

18 Creditors – amounts falling due within one year

	Group		Company	
	2002 £000	2001 £000	2002 £000	2001 £000
Bank overdraft and loans	2,765	3,095	9,326	15,491
Loan other than from banks	5,699	19,673	4,049	19,673
Finance leases	493	1,604	–	–
Trade creditors	11,655	9,810	–	–
Amounts owed to Group companies	–	–	33,247	8,636
Dividends proposed	5,370	4,456	5,370	4,456
Corporation Tax	4,098	3,886	–	87
Other tax and social security	8,876	6,328	–	50
Other creditors	8,288	15,838	918	2,050
Accruals and deferred income	14,918	16,485	1,495	5,872
	62,162	81,175	54,405	56,315

19 Creditors – amounts falling due after more than one year

	Group		Company	
	2002	2001	2002	2001
	£000	£000	£000	£000
Bank loan	60,000	55,005	60,000	55,005
Finance leases	–	314	–	–
Other creditors	51	82	–	–
	60,051	55,401	60,000	55,005

20 Net (borrowings)/cash

	Interest rates	Group 2002 £000	Group 2001 £000	Company 2002 £000	Company 2001 £000
Unsecured					
Bank overdraft and loans	variable	(62,765)	(58,100)	(69,326)	(70,496)
Loan other than from banks	variable	(5,699)	(19,673)	(4,049)	(19,673)
Finance leases		(493)	(1,918)	–	–
Total borrowings		(68,957)	(79,691)	(73,375)	(90,169)
Cash at bank and in hand		9,196	4,341	119	6
Net borrowings		(59,761)	(75,350)	(73,256)	(90,163)

Net (borrowings)/cash for the Group is summarised as follows:

	Repayable within 1 year £000	Repayable between 1 and 2 years £000	Repayable between 2 and 5 years £000	Total £000
Unsecured				
Bank overdraft and loans	(2,765)	–	(60,000)	(62,765)
Loan other than from banks	(5,699)	–	–	(5,699)
Finance leases	(493)	–	–	(493)
Total borrowings	(8,957)	–	(60,000)	(68,957)
Cash at bank and in hand	9,196	–	–	9,196
At 31st December 2002	239	–	(60,000)	(59,761)
At 31st December 2001	(20,031)	(314)	(55,005)	(75,350)

21 Financial Instruments

An explanation of the role that financial instruments have had during the year in creating or changing the risks that the Group faces in its activities is set out in the Financial Review on page 20. Short-term debtors and creditors have been excluded from all the following disclosures.

Notes to the Financial Statements

for the year ended 31st December 2002

21 Financial Instruments continued

Interest rate profile of financial liabilities

The interest rate profile of the Group's financial liabilities at 31st December 2002 was:

	Total £000	Floating rate financial liabilities £000	Financial liabilities on which no interest paid £000
At 31st December 2002 – all sterling	72,942	72,891	51
At 31st December 2001 – all sterling	84,445	84,363	82

All the Group's creditors falling due within one year (other than bank and other borrowings) are excluded from the above tables either due to their short-term nature or because they do not meet the definition of a financial liability, such as tax balances.

Included within floating rate financial liabilities are £35 million of borrowings upon which the Group has entered into interest rate swaps that have the effect of restricting LIBOR rates on those borrowings to between 4.0% and 5.6%. The net fair value of these swaps at 31st December 2002 was £nil.

Included in the above are the Group's provisions of £3,934,000 (2001 – £4,672,000) for onerous contracts (note 22) which meet the definition of financial liabilities. These financial liabilities are considered to be floating rate liabilities as, in establishing the provisions, the cash flows have been discounted and the discount rate is re-appraised at each half yearly reporting date to ensure that it reflects current market assessments of the time value of money and the risks specific to the liability. Other floating rate financial liabilities bear interest at rates, based on LIBOR, which are fixed in advance for periods of between one month and twelve months.

The weighted average period to maturity of financial liabilities that bear no interest at 31st December 2002 was 1.5 years (2001 – 1.5 years).

Interest rate profile of financial assets

The interest rate profile of the Group's financial assets at 31st December 2002 was:

	Total £000	Floating rate financial assets £000	Financial assets on which no interest received £000
Sterling	9,170	9,114	56
Australian dollars	4	–	4
New Zealand dollars	18	–	18
US dollars	4	–	4
At 31st December 2002	9,196	9,114	82
Sterling	4,280	4,220	60
Australian dollars	21	–	21
New Zealand dollars	24	–	24
Euros	1	–	1
US dollars	15	–	15
At 31st December 2001	4,341	4,220	121

The financial assets comprise loan notes, bank deposits, bank current account balances and cash in hand. The floating rate financial assets earn interest at rates based on relevant national LIBOR equivalents and are all recoverable within one year or on demand. The financial assets on which no interest is received are balances on bank current accounts and cash in hand.

21 Financial Instruments continued

Maturity of financial liabilities

The maturity profile of the Group's financial liabilities at 31st December 2002 was:

	Debts £000	Other financial liabilities £000	Total £000
Within 1 year, or on demand	8,957	1,201	10,158
Between 1 and 2 years	–	418	418
Between 2 and 5 years	60,000	1,131	61,131
Over 5 years	–	1,235	1,235
At 31st December 2002	68,957	3,985	72,942

	Debts £000	Other financial liabilities £000	Total £000
Within 1 year, or on demand	24,372	103	24,475
Between 1 and 2 years	314	1,293	1,607
Between 2 and 5 years	55,005	102	55,107
Over 5 years	–	3,256	3,256
At 31st December 2001	79,691	4,754	84,445

Other financial liabilities include the provision for onerous contracts of £3,934,000 (2001 – £4,672,000).

Borrowing facilities

The Group had the following undrawn committed borrowing facilities available in respect of which all conditions precedent had been met at that date:

	2002 £000	2001 £000
Expiring within 1 year	–	–
Expiring between 1 and 2 years	–	–
Expiring in more than 2 years	29,301	20,355
	29,301	20,355

All the above facilities incur commitment fees at market rates.

Fair values of financial assets and financial liabilities

The following table shows a comparison between the carrying amounts and the fair values of the Group's financial assets and financial liabilities. Fair value is the amount at which a financial instrument could be exchanged in an arm's length transaction between informed and willing parties, other than a forced or liquidation sale and excludes accrued interest. Fair values have been calculated by discounting expected cash flows at prevailing interest and exchange rates. For floating rate financial assets and liabilities, fair values approximate to book values.

	2002		2001	
	Book value £000	Fair value £000	Book value £000	Fair value £000
Financial assets	9,196	9,196	4,341	4,341
Short-term financial liabilities and current portion of long-term borrowings	(8,957)	(8,957)	(24,372)	(24,372)
Long-term borrowings	(60,000)	(60,000)	(55,319)	(55,319)
Other financial liabilities	(3,985)	(3,985)	(4,754)	(4,754)
	(63,746)	(63,746)	(80,104)	(80,104)

22 Provision for liabilities and charges

	Pensions £000	Onerous contracts £000	Deferred tax £000	Total £000
Group				
At 1st January 2002	1,500	4,672	74	6,246
Transfer to profit and loss account	–	(108)	–	(108)
Utilised in the year	(750)	(920)	(62)	(1,732)
Amortisation of discount	235	184	(69)	350
Acquired with subsidiary undertakings (fair value adjustments – see note 16)	3,723	106	(1,535)	2,294
Transfer to debtors (note 17)	–	–	1,592	1,592
At 31st December 2002	4,708	3,934	–	8,642
Company				
At 1st January 2002	–	1,268	19	1,287
Utilised in the year	–	(204)	(2)	(206)
Amortisation of discount	–	59	–	59
At 31st December 2002	–	1,123	17	1,140

Pensions

Following the acquisition of Healthcall in 2001 and as part of the process for finalising the provisional fair value of the assets and liabilities acquired, an actuarial deficit on the Healthcall pension fund has been recognised on a discounted basis using appropriate government bond rates.

Onerous contracts

The provision for onerous contracts comprises £3,298,000 (2001 – £3,379,000) in respect of lease contracts for property no longer occupied by the Group (Company 2002 – £1,123,000; 2001 – £1,268,000) and £636,000 (2001 – £1,293,000) in respect of other unavoidable contract losses that are expected to crystallise in 2003.

The Group has a number of properties that are either vacant or under-let at a discount. Full provision has been made for the residual lease commitments, together with other outgoings, after taking into account existing sub-tenant agreements for the remaining period of the leases, which at 31st December 2002 is approximately 10 years. In determining the provision for onerous contracts, the cash flows have been discounted on a pre-tax basis using appropriate government bond rates.

Deferred tax

At 31 December 2002, the Group has an overall deferred tax asset position arising from the recognition of a pension liability (above). The deferred tax asset is shown as part of debtors. The asset is shown net of a provision for deferred tax arising from accelerated capital allowances. The full potential deferred tax asset is as follows:

	2002 £000	2001 £000
Pension liability	1,604	450
Accelerated capital allowances	1,734	1,206
Losses not relievable	302	318
Other	467	246
	4,107	2,220

23 Share capital

	Authorised Number	Authorised £000	Allotted, issued and fully paid Number	Allotted, issued and fully paid £000
Ordinary shares of 10p each				
At 1st January 2002	96,000,000	9,600	87,077,958	8,708
Issued during the year	–	–	387,702	39
At 31st December 2002	96,000,000	9,600	87,465,660	8,747

The shares issued during the year were issued for cash consideration of £763,000 to employees exercising share options under share option schemes. 1,645 shares remain held by the Employee Share Ownership Trust at 31st December 2002 as described in note 16.

24 Share premium account and reserves

	Share premium account £000	Other reserves £000	Profit & loss account £000
Group			
At 1st January 2002	42,298	864	41,407
Issue of shares	724	–	–
Retained profit for the year	–	–	(6,505)
At 31st December 2002	43,022	864	34,902

At 31st December 2002, goodwill written off directly against profit and loss reserves in respect of subsidiaries and associated undertakings still held by the Group was £16,891,000 (31st December 2001 – £16,891,000).

	Share premium account £000	Other reserves £000	Profit & loss account £000
Company			
At 1st January 2002	42,298	25,750	31,423
Profit for the year	–	–	252,447
Dividends	–	–	(8,413)
Issue of shares	724	–	–
At 31st December 2002	43,022	25,750	275,457

As part of the Group's reorganisation, the business of one Group company was transferred to another Group company at a valuation of £260,000,000 resulting in a profit on disposal of £240,874,000. This profit was then distributed to the Company as part of a dividend. As at 31 December 2002, the profit and loss reserves of the company include £240,874,000 that is not distributable.

Included in other reserves are £21,512,000 of distributable reserves relating to foreign exchange and acquisition reserves and £4,238,000 of non-distributable reserves.

25 Notes to the cash flow statement

	2002 £000	2001 £000
Reconciliation of operating profit to net cash inflow from operations		
Operating profit	11,506	17,055
Exceptional items	18,100	4,574
Amortisation of goodwill	7,694	3,831
Depreciation	7,237	4,945
Net profit on sale of tangible fixed assets	149	160
Utilisation of provisions	(1,778)	(1,290)
Decrease/(increase) in debtors	11,563	(8,784)
(Decrease)/increase in creditors	(327)	4,157
Net cash inflow from operating activities	54,144	24,648

	2002 £000	2001 £000
Reconciliation of net cash flow to movement in net debt		
Increase in cash and decrease in overdraft	5,185	(12,206)
Decrease in finance leases	1,425	476
Decrease/(increase) in loans	8,979	(70,155)
	15,589	(81,885)
Increase in loans on acquisition of subsidiary undertaking	–	(2,394)
	15,589	(84,279)
Net (debt)/cash at 1st January	(75,350)	8,929
Net debt at 31st December	(59,761)	(75,350)

Notes to the Financial Statements

for the year ended 31st December 2002

25 Notes to the cash flow statement continued

	Loans and finance leases repayable in less than one year £000	Loans and finance leases repayable in more than one year £000	Overdraft £000	Cash £000	Total £000
Analysis of movements in loans and cash balances					
At 1st January 2002	(21,277)	(55,319)	(3,095)	4,341	(75,350)
Increase in loans and net cash inflow	15,085	(4,681)	330	4,855	15,589
At 31st December 2002	(6,192)	(60,000)	(2,765)	9,196	(59,761)

26 Operating lease commitments

The Group has numerous premises operated under leases whose terms, conditions and expiry dates vary considerably, some of which are no longer occupied by the Group.

The commitment in respect of operating leases in 2003 is as follows:

	Land & buildings occupied by Group £000	Land & buildings not occupied by Group £000	Total £000
For leases expiring			
within one year	935	31	966
between two and five years	1,479	212	1,691
beyond five years	2,141	762	2,903
	4,555	1,005	5,560

In respect of the hire of plant and machinery, operating lease commitments are not material.

27 Contingent liabilities

In 1993, CCHP (a partner in the Cross Country Staffing ("CCS") partnership) commenced a programme of providing tax-free meal and lodging benefits ("Travel Benefits") to the travelling nurses it employed. Such benefits were also provided to nurses employed by CCS following the establishment of the CCS partnership by CCHP and MRA Staffing Services Inc. (a former subsidiary of the Group) on 1st July 1996. The portion of the programme providing meal reimbursements was terminated on 1st June 1999 and applied to all contracts with nurses entered into prior to 1st June 1999.

In November 1998, the Internal Revenue Service of the US (the IRS) issued a payroll tax assessment of US$21.8 million for unpaid payroll tax in relation to the Travel Benefits provided to nurses for the 1993 to 1995 tax years of CCHP which were in the process of being reviewed by the IRS. On 23rd March 1999, CCHP filed a claim against the IRS in the United States Court of Federal Claims protesting this assessment.

CCHP and the Company have received advice from legal advisers in the United States that CCHP should either succeed in opposing this assessment, or be able to settle the case for a significantly lower sum in relation to all tax years during which the programme operated. The Company's liability of such settlement would be limited to amounts relating to the period since 1st July 1996 (being the date of establishment of the CCS partnership) and, taking this into account, the Company's share of any liability would be approximately 22%, with W R Grace & Co. being liable for substantially all of the remaining share.

Based upon the advice received, the directors do not believe it is appropriate to make any provision in the financial statements.

28 Pension commitments

The Group has continued to account for pensions in accordance with SSAP 24 and the disclosures given in (a) are those required by that standard. FRS 17 Retirement Benefits was issued in November 2000 but will not be mandatory for the Group and company until the year ending 31st December 2005. Prior to this, phased transitional disclosures are required.

a) Group pension schemes

The Group operates two funded pension schemes providing benefits based on final pensionable salary. The two schemes are the Nestor Healthcare Group Retirement Benefits Scheme (the Nestor Scheme) and the Healthcall Group Limited Pension Scheme (the Healthcall Scheme). Both schemes are closed to new members. The schemes are administered by Trustees separately from the affairs of the Group and are contracted out of the additional component of the State Pension Scheme.

Nestor Scheme

Watson Wyatt Partners, LLP, consulting actuaries, carried out an actuarial valuation of the Nestor Scheme as at 5th April 2000. On the actuarial basis used, as at that date the market value of the assets was 82% of the value placed on the liabilities in respect of benefits earned to 5th April 2000, allowing for expected future increases in pensionable earnings to Normal Pension Age, treating the scheme as an ongoing entity.

The market value of the investments held in the scheme as at the valuation date was £9,059,000. In addition there were pensions in payment secured by the purchase of annuities.

The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of investment return on future net cash flow and the rate of increase in pensionable earnings. These rates were set relative to an assumed long-term rate of price inflation of 3% per annum.

The assumed future rate of investment return, used to discount projected income and outgoing benefits, was a real rate of 3.5% per annum relative to price inflation. Pensionable earnings were assumed to increase on average at a rate of 3% per annum ahead of price inflation.

The employer's contribution rate (currently 17%) is calculated using the projected unit method and the shortfall of assets as at 5th April 2000 is amortised as a constant percentage of members' pensionable earnings over the average expected working lifetime of the active members. As the Nestor scheme is closed to new members, under the projected unit method the employer's contribution rate will increase as the members of that scheme approach retirement.

Healthcall Scheme

Watson Wyatt Partners, LLP, consulting actuaries, carried out an actuarial valuation of the Healthcall Scheme as at 1st November 2001. On the actuarial basis used, as at that date the assessed value of the assets was 51% of the capitalised value of the accrued benefits, allowing for expected future increases in pensionable earnings to Normal Pension Age, treating the scheme as an on-going entity.

The market value of the investments held in the scheme as at the valuation date was £5,346,000.

The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of investment return and the rate of increase in pensionable earnings.

It was assumed that the investment return would be 1% higher than the average increase in pensionable earnings.

The employer's contribution rate (currently 21%) is calculated using the projected unit method and the shortfall of assets as at 1st November 2001 is amortised as a constant percentage of members' pensionable earnings over the average remaining expected service lives of the active members. As the Healthcall scheme is closed to new members, under the projected unit method, the employer's contribution rate will increase as the members of that scheme approach retirement.

Pension charge

The pension charge for the year was £2,649,000 (2001 – £1,883,000). The increase reflects higher employer contribution rates to the Nestor and Healthcall schemes, following the finalisation of the actuarial valuations in 2001 and 2002 respectively, and the increase in the number of employees participating in the Group's Schemes.

At 31st December 2002, there was a net pension liability of £4,708,000 (2001 – £1,129,000) included in the Group's balance sheet comprising an asset of £nil (2001 – £371,000) included in debtors and a liability of £4,708,000 (2001 – £1,500,000) included within provisions. This relates to the formal valuation of the Heathcall scheme as at the date of acquisition, adjusted for subsequent movements. This liability is expected to be satisfied by annual payments of £500,000 up to 2015.

Notes to the Financial Statements

for the year ended 31st December 2002

28 Pension commitments continued

b) FRS 17 Retirement Benefits

The valuation used for FRS 17 disclosures has been based on the most recent actuarial valuation of the Nestor Scheme and the Healthcall Scheme at 5th April 2000 and 1st November 2001 respectively, and updated by Watson Wyatt Partners to take account of the requirements of FRS 17 in order to assess the liabilities of the schemes at 31st December 2002. Assets of the schemes are stated at their market valuation at 31st December 2002.

The financial assumptions used to calculate the schemes' liabilities under FRS 17 are:

	31st December 2002	31st December 2001
Valuation method	**Projected unit**	Projected unit
Discount rate	**5.75%**	6.00%
Inflation rate	**2.25%**	2.50%
Increases to pensions in payment and deferred pensions	**2.25%**	2.50%
Salary increases	**4.25%**	4.50%

The assets in the schemes and the expected rate of return were:

	Long-term rate of return expected on 31st December 2002	Value at 31st December 2002 £000	Long-term rate of return expected on 31st December 2001	Value at 31st December 2001 £000
Equities	**8.0%**	**11,590**	7.75%	13,152
Bonds	**5.0%**	**2,276**	5.5%	2,106
Other	**4.0%**	**896**	4.0%	1,311
Total market value of assets		**14,762**		16,569
Present value of schemes' liabilities		**(27,535)**		(22,230)
Deficit in the schemes – pension liabilities		**(12,773)**		(5,661)

As stated on page 63, a provision has been made for the deficit on the Healthcall scheme as of the date of acquisition. Therefore, the net effect on the Group's net assets and profit and loss reserves of the deficit in the schemes' assets would be:

	2002 Group £000	2001 Group £000
Net assets		
Net assets	**87,856**	93,590
Add: existing accrued pension liability	**4,708**	1,500
Tax on existing accrued pension liability	**(1,604)**	–
Less: total pension liabilities	**(12,773)**	(5,661)
Tax on total pension liabilities	**3,832**	1,698
Net assets including pension liabilities	**82,019**	91,127

	2002 Group £000	2001 Group £000
Reserves		
Profit and loss reserve	**34,902**	41,407
Add: existing accrued pension liability	**4,708**	1,500
Tax on existing accrued pension liability	**(1,604)**	–
Less: total pension liabilities	**(12,773)**	(5,661)
Tax on total pension liabilities	**3,832**	1,698
Profit and loss reserve including pension liabilities	**29,065**	38,944

28 Pension commitments continued

Components of defined benefit cost for the year ended 31st December 2002

Analysis of amounts that would be charged to operating profit	2002 Group £000
Current service cost	**1,623**

Analysis of amounts that would be charged to other finance income	
Interest on pension scheme liabilities	1,382
Expected return on assets in the pension scheme	(1,262)
Net charge to other finance income	**120**
Total profit and loss charge before deduction for tax	**1,743**

Analysis of the amounts that would be recognised in statement of total recognised gains and losses	2002 Group £000
Actual return less expected return on scheme assets	(4,691)
Experience gains and losses arising on the scheme liabilities	(440)
Changes in the assumptions underlying the present value of the scheme liabilities	(2,031)
Actuarial loss recognised in statement of total recognised gains and losses	**(7,162)**

History of experience gains and losses	2002 Group
Difference between the actual and expected return of scheme assets:	
Amount (£'000)	(4,691)
Percentage of scheme assets	(31.8%)
Experience gains and losses on scheme liabilities:	
Amount (£'000)	(440)
Percentage of present value of scheme liabilities	(1.6%)
Total amount recognised in statement of total recognised gains and losses:	
Amount (£'000)	(7,162)
Percentage of present value of scheme liabilities	(26.0%)

Notes to the Financial Statements

for the year ended 31st December 2002

29 Share option schemes

The following table sets out options in issue under the various Company schemes at the beginning and end of the year and movements during the year. Share options in issue expire after a certain time and exercise dates vary. Exercise rights are subject to the rules of the schemes and share options in issue are not normally exercisable until the expiry of a period of at least three years. In addition, achievement of performance levels is normally required in all schemes except the SAYE scheme.

	Date of issue	Option price (pence)	In issue 1st Jan 2002	Granted in the year	Exercised in the year	Lapsed in the year	In issue 31st Dec 2002
Company Share Option Plan 1996							
	November 1996	115.00	4,100	–	(4,100)	–	–
	April 1998	236.50	39,898	–	(21,364)	(2,959)	15,575
	October 1998	339.50	18,445	–	(13,843)	–	4,602
	April 1999	407.50	58,253	–	(15,441)	(5,643)	37,169
	October 1999	596.50	31,569	–	–	–	31,569
	May 2000	425.00	373,159	–	(12,234)	(92,291)	268,634
	August 2000	429.50	20,952	–	–	–	20,952
	November 2000	472.50	6,349	–	–	–	6,349
	March 2001	542.50	68,624	–	–	(10,749)	57,875
	October 2001	510.00	88,230	–	–	(23,528)	64,702
	April 2002	544.00	–	11,028	–	–	11,028
			709,579	11,028	(66,982)	(135,170)	518,455
Employee Share Option Scheme 1996							
	November 1996	115.00	335,500	–	(247,500)	–	88,000
	April 1998	236.50	110,314	–	(22,276)	–	88,038
	April 1999	407.50	128,784	–	(46,630)	(13,966)	68,188
	October 1999	596.50	2,850	–	–	–	2,850
	May 2000	425.00	463,250	–	(4,189)	(35,673)	423,388
	August 2000	429.50	19,093	–	–	–	19,093
	November 2000	472.50	46,561	–	–	–	46,561
	March 2001	542.50	296,663	–	–	(31,168)	265,495
	October 2001	510.00	205,294	–	–	(53,483)	151,811
	April 2002	544.00	–	39,522	–	–	39,522
			1,608,309	39,522	(320,595)	(134,290)	1,192,946
Share Option plan 2002							
	July 2002	267.50	–	916,874	–	(29,974)	886,900
	October 2002	212.50	–	322,352	–	–	322,352
			–	1,239,226	–	(29,974)	1,209,252
Savings Related Share Option Scheme							
	December 1997	131.00	67,408	–	–	(1,053)	66,355
	December 1998	305.00	76,301	–	(45,605)	(8,473)	22,223
	September 1999	412.00	80,605	–	(125)	(25,084)	55,396
	April 2001	447.20	154,737	–	–	(38,002)	116,735
	April 2002	454.80	–	351,183	–	(74,391)	276,792
			379,051	351,183	(45,730)	(147,003)	537,501
Total			2,696,939	1,640,959	(433,307)	(446,437)	3,458,154

Five Year Summary

	1998 £000	1999 £000	2000 £000	2001 £000	2002 £000
Group profit and loss account					
Turnover (including share of associated undertaking)					
Continuing operations	221,345	277,445	292,802	400,965	482,695
Discontinued operations	32,519	22,673	–	–	–
	253,864	300,118	292,802	400,965	482,695
Less: Share of turnover of associated undertaking	(32,519)	(22,673)	–	–	–
Turnover	221,345	277,445	292,802	400,965	482,695
Operating profit					
Continuing operations	9,466	10,274	17,124	21,629	29,606
	9,466	10,274	17,124	21,629	29,606
Share of operating profit of associated undertaking (discontinued operations)	3,937	2,704	–	–	–
	13,403	12,978	17,124	21,629	29,606
Exceptional items	–	(5,206)	(727)	(4,574)	(17,300)
Profit on ordinary activities before interest	13,403	7,772	16,397	17,055	12,306
Net interest	(680)	(521)	425	(1,544)	(4,169)
Profit before taxation	12,723	7,251	16,822	15,511	8,137
Taxation	(3,600)	(4,274)	(5,190)	(6,013)	(6,181)
Profit after taxation	9,123	2,977	11,632	9,498	1,956
Equity minority interests	73	(55)	(158)	(19)	(48)
Profit attributable to shareholders	9,196	2,922	11,474	9,479	1,908
Profit before taxation, goodwill, amortisation and exceptional items	12,780	13,035	18,759	23,916	33,131
Basic earnings per share – FRS 3 basis	11.90p	3.76p	14.63p	11.55p	2.18p
Basic earnings per share – before goodwill amortisation and exceptional items	11.97p	11.21p	17.10p	20.54p	29.83p
Dividends per share	4.65p	5.58p	6.69p	8.02p	9.62p

Five Year Summary continued

	1998 £000	1999 £000	2000 £000	2001 £000	2002 £000
Group balance sheet					
Goodwill	3,711	21,337	31,428	152,507	**139,243**
Tangible fixed assets	5,533	7,724	7,776	13,512	**12,741**
Investments	2,521	772	28	28	**1**
Total fixed assets	11,765	29,833	39,232	166,047	**151,985**
Current assets	36,006	40,961	40,926	66,024	**57,530**
Liabilities and provisions	(25,845)	(31,953)	(36,247)	(63,131)	**(61,898)**
Net operating assets	21,926	38,841	43,911	168,940	**147,617**
Net cash/(borrowings)	(10,088)	7,089	8,929	(75,350)	**(59,761)**
Net assets	11,838	45,930	52,840	93,590	**87,856**
Share capital	7,745	7,814	7,853	8,708	**8,747**
Share premium account	2,839	3,620	4,868	42,298	**43,022**
Other reserves	1,358	34,545	39,788	42,271	**35,766**
Equity shareholders' funds	11,942	45,979	52,509	93,277	**87,535**
Equity minority interests	(104)	(49)	331	313	**321**
	11,838	45,930	52,840	93,590	**87,856**
Group cash flow statement					
Net cash inflow from operating activities before exceptional items	4,925	8,928	23,760	24,648	**54,144**
Cash flow from exceptional items	–	–	–	(2,246)	**(2,300)**
Dividends received from associated undertakings	1,798	1,209	–	–	**–**
Interest (paid)/received	(154)	(471)	510	(964)	**(3,896)**
Tax paid	(3,527)	(4,265)	(3,776)	(6,268)	**(6,240)**
Capital expenditure	(2,954)	(4,147)	(2,365)	(4,523)	**(6,743)**
Acquisitions and disposals	(3,187)	23,441	(11,867)	(124,934)	**(12,640)**
Equity dividends paid	(3,205)	(3,868)	(4,674)	(5,883)	**(7,499)**
Issue of shares	318	850	275	38,285	**763**
Increase/(decrease) in loans	(1,000)	(1,520)	(60)	69,679	**(10,404)**
Increase/(decrease) in cash	(6,986)	20,157	1,803	(12,206)	**5,185**

Shareholder Information

Financial calendar

Announcement of 2003 results (provisional)

For the half-year	September 2003
For the year	March 2004
Annual Report and Accounts circulated	April 2004
Annual General Meeting	May 2004

Dividends

Proposed final dividend 2002	
Announcement	3rd March 2003
Ex-dividend	16th April 2003
Record date	22nd April 2003
Payment date	6th June 2003
Interim dividend 2003 (provisional)	
Announcement	September 2003
Payment	October 2003

Analysis of shareholdings

At the date of this report the Company has 1,761 shareholders who hold 87,497,258 ordinary shares between them, analysed as follows:

Size of holding	Number of shareholders	% of shareholders	Number of shares	% of shares
1–5,000	1,347	76	1,496,959	2
5,001–50,000	258	15	4,143,007	5
50,001–100,000	36	2	2,585,652	3
100,001 and over	120	7	79,271,640	90
	1,761	100	87,497,258	100

Type of shareholder				
Individuals	995	57	2,405,040	3
Nominee companies*	693	39	78,638,522	89
Other corporate and public bodies	59	3	4,867,241	6
Trust companies	14	1	1,586,455	2
	1,761	100	87,497,258	100

* This category includes the beneficiaries of pension funds, unit trusts, life assurance companies and investment trusts.

Share Registrar

The Company's registrar is Computershare Investor Services PLC, of PO Box 82, The Pavilions, Bridgwater Road, Bristol BS99 7NH.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN, that the sixteenth Annual General Meeting of the Company will be held at The Millennium Hotel, Grosvenor Square, London W1K 2HP on Tuesday 3rd June 2003 at 12.30 pm for the following purposes:

Ordinary business

1. **To receive and consider the financial statements, together with the reports of the directors and auditors, for the year ended 31st December 2002.**
2. **To declare a final dividend.**
3. **To re-elect S M Booty as a director.**
4. **To re-elect W F Holmes as a director.**
5. **To re-elect D Howell as a director.**
6. **To re-elect S R Page as a director.**
7. **To re-elect M A Ellis as a director.**
8. **To approve the Remuneration Report of the directors for the year ended 31st December 2002.**

Special business

9. To re-appoint PricewaterhouseCoopers LLP as auditors of the Company, to hold office until the conclusion of the next Annual General Meeting and to authorise the directors to determine their remuneration.

10. **To consider and if thought fit, to pass the following resolution as an Ordinary Resolution:**
That the directors be and are hereby authorised and empowered during the period expiring at the conclusion of the next Annual General Meeting of the Company, or on 2nd September 2004 whichever is earlier, to allot relevant securities as defined in Section 80 of the Companies Act 1985 ("the Act") and to make an offer or agreement which would or might require relevant securities to be allotted after that date, so long as the nominal value of the relevant securities allotted under this authority shall not exceed the nominal value of the authorised but unissued share capital of the Company at the date hereof.

11. **To consider and if thought fit, to pass the following resolution as a Special Resolution:**
That the directors of the Company be and are hereby authorised and empowered during the period expiring at the conclusion of the next Annual General Meeting of the Company or on 2nd September 2004, whichever is the earlier, to exercise all powers of the Company to allot equity securities (within the meaning of Section 94 of the Act) as if Section 89(1) of the Act did not apply in the case of:

(a) allotments in connection with a rights issue to shareholders where the directors shall have the right to make such exclusions or other arrangements as they may deem necessary or expedient to deal with fractional entitlements that would otherwise arise or with legal or practical problems under the laws of or requirements of any recognised regulatory body or any stock exchange in any territory, or otherwise howsoever;

(b) other allotments of equity securities for cash where this authority shall be limited in aggregate to the allotment of or involving equity share capital not exceeding (in nominal value) 5% of the nominal value of the issued share capital of the Company as at the date hereof.

12. **To consider and if thought fit, to pass the following resolution as a Special Resolution:**
That, pursuant to Article 44 of the Company's Articles of Association, the Company be and is hereby granted renewal of its general and unconditional authority to make market purchases (within the meaning of Section 163(3) of the Act) of ordinary shares of 10p each in the capital of the Company provided that:

(a) the maximum number of ordinary shares hereby authorised to be purchased is 8,500,000, representing approximately 10% of the issued ordinary share capital at 3rd March 2003;

(b) the minimum price which may be paid for each ordinary share is 10 pence per ordinary share which amount shall be exclusive of expenses;

(c) the maximum price which may be paid for each ordinary share is, in respect of an ordinary share contracted to be purchased on any day, an amount (exclusive of expenses) equal to 105% of the average of the mid-market quotations for an ordinary share of the Company as derived from the Daily Official List of the London Stock Exchange for the five business days immediately preceding the day on which the ordinary share is purchased;

(d) the authority hereby conferred shall expire at the conclusion of the next Annual General Meeting of the Company after the date of passing this resolution, unless such authority is renewed prior to such time; and

(e) the Company may conclude a contract to purchase ordinary shares under the authority hereby conferred prior to the expiry of such authority which will or may be exercised wholly or partly after the expiry of such authority and may make a purchase of ordinary shares in pursuance of any such contract as if the authority hereby conferred had not expired.

By order of the Board

Emma Thomas
Group Company Secretary

Registered office:
The Colonnades
Beaconsfield Close
Hatfield
Hertfordshire
AL10 8YD
3rd March 2003

1. A form of proxy is enclosed with this notice. A member of the Company entitled to attend and vote at the above meeting is entitled to appoint one or more proxies to attend and, on a poll, vote instead of him. A proxy need not be a member of the Company. To be valid, proxies must be lodged with the Registrar of the Company, Computershare Investor Services PLC, PO Box 1075, The Pavilions, Bridgwater Road, Bristol BS99 3FA, no later than 12.30 pm on Sunday 1st June 2003. Appointment of a proxy will not prevent a member from attending and voting at the Annual General Meeting should he/she decide to do so.

2. Copies of directors' service contracts are available for inspection at the Company's registered office during normal business hours on any weekday (public holidays excepted) and at The Millennium Hotel for 15 minutes prior to and during the Annual General Meeting.

Registered Office and Advisors

Registered office
The Colonnades
Beaconsfield Close
Hatfield
Hertfordshire AL10 8YD
Registered number 1992981
www.nestor-healthcare.co.uk

Financial advisors
NM Rothschild & Sons Limited
New Court
St Swithin's Lane
London EC4P 4DU

Stockbrokers
UBS Warburg
1 Finsbury Avenue
London EC2M 2PP

Auditors
PricewaterhouseCoopers LLP
1 Embankment Place
London WC2N 6RH

Internal auditors
Deloitte & Touche
Verulam Point
Station Way
St Albans
Hertfordshire AL1 5HE

Solicitors
Freshfields Bruckhaus Deringer
65 Fleet Street
London EC4Y 1HS

Hammonds
7 Devonshire Square
Cutlers Gardens
London EC2M 4YH

Principal bankers
National Westminster Bank plc
280 Bishopsgate
London EC2M 4RB

Barclays Bank plc
Eagle Point
1 Capability Green
Luton LU1 3US

Registrars
Computershare Investor Services PLC
PO Box 82
The Pavilions
Bridgwater Road
Bristol BS99 7NH

Nestor locations

Designed and produced by Loewy Group +44 (0)20 7798 2000

Nestor Healthcare Group plc

Registered office
The Colonnades, Beaconsfield Close
Hatfield, Hertfordshire AL10 8YD
www.nestor-healthcare.co.uk